Report to Cabinet – 27 October 2021 **APPENDIX A**

Medium Term Financial Strategy 2022/23 – 2024/25

Report of the Finance Portfolio Holder

Recommended:

1. **That the Medium Term Financial Strategy (MTFS) for 2022/23 to 2024/25 be approved.**
2. **That the Medium Term Financial Forecast, as shown in Annex 3 to the report, be noted.**

Recommendation to Council

SUMMARY:

- This MTFS sets out the framework within which the 2022/23 budget will be prepared.
- It also sets out the Medium Term Financial Forecast for the General Fund income and expenditure, which will form the basis of the 2022/23 budget.
- The strategy also reviews the impact that COVID-19 has had on the Council's finances in 2021/22 and considers the ongoing effects this will have on budget planning in the medium term.

1 Introduction

1.1 The Constitution sets out the processes for preparing the Council's budget. Cabinet is required to consult with other Committees in formulating the budget proposals to be presented to Council.

1.2 The MTFS sets out the key financial assumptions that have been made in producing the Medium Term Financial Forecast and sets out a proposed framework within which to work over the life of the strategy.

1.3 It should be stressed that all of the options and assumptions in this report, relating to any potential budget changes, are for indicative planning purposes only. Final decisions on the overall Budget and Council Tax level will not be made until February 2022 once the Local Government Finance Settlement has been announced. These decisions can only be made by Full Council.

2 Background

2.1 This MTFS complements the Council's Corporate Plan and sets out a framework for financial decision making. The Corporate Plan makes clear what the Council's priorities are, and the MTFS sets out how the financial management process will contribute to delivering these priorities.

2.2 The MTFS has been produced at a challenging time for the Council's finances. Some of the most significant factors include:

- The impacts of coronavirus on budgets have been severe – and the long-term effects will remain unclear for some time.
- There are expected to be further delays to the re-setting of the business rates baseline and continuing uncertainty as to the Council's funding for business rates beyond 2022/23.
- Interest rates remain at record-low levels and there is little prospect of them being increased significantly over the life of this strategy.

2.3 <u>Coronavirus</u>

2.3.1 There is ongoing disruption in the global, national and local economies as the recovery from coronavirus continues. In a local context, the Council has paid out more than £45M in business support grants since April 2020.

2.3.2 The Council has faced significant reductions in income and increased expenditure since the start of the pandemic. The 2021/22 budget includes a one-off pressure of £1.05M in respect of the forecast unfunded deficit caused by the pandemic in the current year.

2.3.3 This strategy has to consider:

- The direct impact that coronavirus will have on budgets over the medium term; for example, on contractual commitments and the potential for sustained reduced income levels.
- Estimating how long it will be before budgets return to pre-Covid levels, or indeed, if they ever will.
- The impact that coronavirus will have in terms of changing demand for services and for how the Council meets that demand.
- Collection rates for both Council Tax and business rates will impact on the amount of money available to deliver local services.

2.3.4 The strategy allows for the one-off impacts of coronavirus to be met by draws from earmarked reserves, where there is insufficient government support to cover budget deficits.

2.4 <u>Business Rates</u>

2.4.1 2013 saw a radical change in the world of local government funding. Localisation of business rates had a profound effect on local authority finances and the level of funding risk that individual authorities face.

2.4.2 Despite being embedded for several years, careful, ongoing monitoring is required to ensure that any potential adverse financial impacts are addressed as soon as possible. This is particularly the case for business rates, where the Council retains an element of the growth within a re-set period.

2.4.3 The re-set has been delayed repeatedly and no certainty has been given as to what will happen to accumulated growth when it does eventually happen. The Council continues to grow its business rates base, so the longer the delay, the greater the risk to the Council's finances.

2.4.4 This strategy assumes that all accumulated growth will be lost at a re-set that comes into effect in April 2023. The potential timing and impact of this is discussed later in the report.

2.5 Interest Rates

2.5.1 In March 2020, the Bank of England lowered the base interest rate from 0.25% to 0.1%. There has been no change to this rate in the past 18 months and little change is expected in the next year.

2.5.2 Any increases that do arise are expected to be small and delivered over several years, rather than a rapid increase to a more sustainable long-term level.

2.5.3 The Council holds a significant cash investment portfolio, with an average portfolio of approximately £70M. The lower the interest rate that is forecast, the less income the Council will generate from those investments.

2.6 The Council has approved Masterplans that will underpin the regeneration of both the south of Romsey town centre and Andover town centre. Both of these projects will require considerable Council resources and funding – both revenue and capital.

2.7 The strategy allows for the building of an earmarked reserve to assist with the required feasibility and design studies necessary for the successful implementation of these masterplans; however, as the timetable and programme for future developments is still being prepared, detailed costings are not contained within the strategy. Council has also approved a top-slice of CIL funding to be ring-fenced for regeneration projects that will help address the funding viability gap.

2.8 The Chancellor has said that the next Budget, together with the conclusions from the Spending Review, will be delivered on 27 October 2021. It is unlikely that this will provide any real detail to build into budget forecasts; however, it may make clearer the government's priorities and potential areas for focus over the remainder of the budget setting process.

2.9 The implications of the Budget and Spending Review will be built in to the budget updates that will be presented to Cabinet in January and February 2022.

2.10 This MTFS includes a forward look over the next three years, to anticipate additional spending requirements, and the level of savings that will be needed. By anticipating financial pressures now, the Council will be in a better position to meet the challenges ahead in a way that ensures financial resources are targeted to the Council's highest priorities.

2.11 The financial forecasts that follow are based on a credible analysis of the potential options, but the potential outcomes are inherently uncertain without answers to the following key questions:

(a) Will the re-set of the business rates retention scheme be further delayed? If / when it does proceed, how will the treatment of accumulated business rates growth since 2013 be treated? How will the government mitigate the effects of a re-set in the Business Rates Retention Scheme as it moves from a 50% to 75% retention basis?

(b) What funding settlement will local government get in 2022/23? Will the lower tier services grant be continued?

(c) Will there be changes to the planned phased withdrawal of the New Homes Bonus?

2.12 The MTFS forecasts will be revised at least annually to reflect the most up to date issues, priorities and pressures faced by the Council. Further information on any aspect of the Council's finances can be obtained from the Council's website.

3 Financial Management Principles

"We are an ambitious, innovative and optimistic Council. Operating within an environment in which there is an ever increasing demand on our services within tough financial conditions, we have sought to develop and embed our "investing philosophy" at the heart of how we do business as an organisation. Investing is about more than just money; it is about devoting our energy, skills and resources to achieving the best results for our residents and communities" – "Growing Our Potential" the Corporate Plan 2019-23.

3.1 The Council has a duty to the public for the responsible use of their money. The Council will at all times conduct its financial affairs in a prudent, responsible manner, but in a way that encourages innovation and achieves improvement.

3.2 The following specific principles underpin the Council's financial management arrangements:

(i) The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body.

(ii) The Council will ensure that budgets are aligned to the Corporate Plan and based on realistic estimates.

(iii) The Council will work with partners in the public, private and voluntary sectors to maximise funding available to deliver strategic priorities.

(iv) The Council will base its decision making upon complete, reliable and timely financial information, and a full evaluation of all the financial and risk implications.

(v) The Council will ensure that ongoing funding is available before recruiting new staff and will make use of temporary appointments where this will meet business needs.

(vi) The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services. To encourage better procurement practice there will be no inflationary increases in budgets for supplies and services (except for contractual obligations to apply indexation).

(vii) The Council will keep its fees and charges frozen or increase them by up to the forecast rate of inflation except where strategic aims, legal requirements or market forces render this inappropriate.

(viii) The Council will hold its managers accountable for remaining within their budgets, but will empower them to take the business decisions necessary to do so.

(ix) Before committing to additional expenditure, the Council will ensure that additional funding, improved income and/or savings are identified to meet the extra costs or that the budget growth is justified.

(x) The Council will maintain balances and reserves to enable it to respond effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities.

(xi) The Council will identify savings to support budgetary pressures and not use its general balances; however, use of earmarked reserves may be made to fund specific or one-off items; to ameliorate the impacts of the coronavirus pandemic; or to smooth the impact of major changes to base budget assumptions.

(xii) The Council will ensure that its published financial information is reliable and understandable.

4 Budget Strategy

Financial Strategy Aims

4.1 The Council's financial aims for the period covering the next three years are set out below. These aims are described in detail in this report and form the overarching aims for each budget setting year within the financial strategy period.

- To maintain a comparatively low Council Tax whilst delivering high quality frontline services.
- To ensure that the efficiency culture remains embedded within the Council, systematically challenging and securing value for money, particularly through digital transformation and making more services available online.
- To ensure that the Council's resources continue to be focused on meeting the Council's vision for Test Valley and achieving its aims and priorities.
- To ensure that the Council's infrastructure is fit for purpose and that new capital needs are identified and met.
- To ensure that the Council's core ongoing financial position remains stable and continues to support the Council's key aims.

- To continue to seek out new investment opportunities through Project Enterprise, making better use of cash resources to enhance revenue returns.

- To build on the lessons learned through the pandemic by seeking to take advantage of new ways of working.

<u>Budgetary Assumptions</u>

4.2 The budget over the duration of this Strategy is based on the following assumptions:

<u>Revenue</u>

(a) The Test Valley element of Council Tax being increased annually by £5 in each of the next three years.

(b) The Andover Levy being pegged to the movements in Council Tax in 2022/23 and then being fully reviewed as part of the budget setting for 2023/24.

(c) The minimum level of working reserves is maintained at £2.6m over the financial strategy period.

(d) Earmarked reserves to be used for specific purposes or to offset the short-term impacts of coronavirus.

(e) The Council continues to make cashable efficiencies every year to sustainably close forecast budget gaps.

(f) All budget growth pressures to be contained within the estimate set out in paragraphs 6.10 and 6.11.

(g) No in-year supplementary estimates will be approved by the Cabinet, although a small contingency provision will be available to meet exceptional or extraordinary items of expenditure.

(h) All other income will be maximised by thorough fees and charges' reviews.

(i) New Homes Bonus to cease in 2022/23. This element of financing to be used for specific purposes as follows:

- Annual funding of the Councillor Community Grant scheme
- Annual contribution to the Community Asset Fund
- Capital financing of asset management projects with a community benefit e.g. playground improvements.

4.3 <u>Capital</u>

4.3.1 The Council will maximise the utilisation of, and rate of return on, the tangible assets it holds on its balance sheet.

4.3.2 All capital expenditure will be funded in accordance with the principles contained in the Prudential Code for Local Authority Capital Finance. All decisions on capital expenditure will ensure that investment is prudent, sustainable and affordable, and that the full implications of all capital expenditure decisions are taken into account in the Council's revenue budget.

4.3.3 The Capital Strategy will be updated in February 2022.

4.4 Review of Reserves

4.4.1 Reserves are an integral part of the financial planning process. They are a way in which financial resources can be carried forward from one financial year to another and enable flexibility in financial planning over the medium term.

4.4.2 The nature of most local services is that they require recurring funding to meet staff and running costs year after year. Reserves are a one-off, finite source of funding. They can cover a shortfall in funding for a specific period but, after they have been exhausted, the underlying shortfall will still be there. Solving this problem may require services to be adjusted to a level which is affordable within the level of funding available.

4.4.3 In previous years, the Council has managed to balance the budget and protect frontline services through a mixture of savings, efficiencies and additional income.

4.4.4 However, the impact of the coronavirus pandemic on Council budgets meant that a draw of £694,000 from equalisation reserves was necessary to reconcile the final 2020/21 outturn position and a further £141,700 was required when setting the 2021/22 budget.

4.4.5 Continuing to protect service delivery and meet the ambitions set out in the Corporate Plan has never been more challenging. Working through the medium and long term consequences of these objectives, in the context of their ongoing cost and the level of usable reserves available will require careful planning.

4.4.6 A summary showing the recent trends in reserve levels held by the Council is shown in the following table. A full breakdown of the different reserves held by the Council is published in the annual Statement of Accounts.

Usable Revenue Reserves

	31/3/18 £000s	31/3/19 £000s	31/3/20 £000s	31/3/21 £000s	31/3/22 £000s Forecast
Usable Revenue Reserves					
General Fund Balance	2,000	2,000	2,604	2,604	2,604
Future risk / budget equalisation	5,048	4,948	4,787	3,887	3,495
Ring-fenced for specific use	9,190	11,829	12,143	12,995	8,921
New or predicted growth	9,575	4,779	7,216	10,282	12,826
Coronavirus Timing Reserves	0	0	0	7,716	0
Total Usable Reserves	25,813	23,556	26,750	37,484	27,846

4.4.7 The above are cash-backed reserves that the Council can apply to future expenditure subject to statutory conditions.

4.4.8 The ***General Fund Balance*** represents a working balance to help cushion the impact of uneven cash-flows and minimise unnecessary temporary borrowing. It is reviewed annually by the Head of Finance and Revenues and, based on the forecast cash-flows identified in the MTFS, remains at a prudent level. Councillors are recommended to retain a minimum balance in the General Fund of £2.604M.

4.4.9 ***Earmarked Reserves*** are a means of building up funds to meet known or predicted liabilities. The Council maintains a number of revenue earmarked reserves that generally fall into one of the following categories:

- To mitigate the risk of future changes in budget requirements (often referred to as equalisation reserves).
- For use on future ring-fenced or specifically determined expenditure.
- To finance new or predicted future expenditure requirements.

4.4.10 Equalisation reserves are held to soften the impact of sudden changes in major income and expenditure headings. This is particularly useful where the Council has no direct control over the macro-economic factors behind, for example, interest rates or the timing of a business rates re-set.

4.4.11 The Council sets aside funding into service-specific earmarked reserves for a number of reasons. This could be because external grant income has been received and must be used for a specific purpose or to ensure that funding is available for the ongoing maintenance and replacement of Council assets.

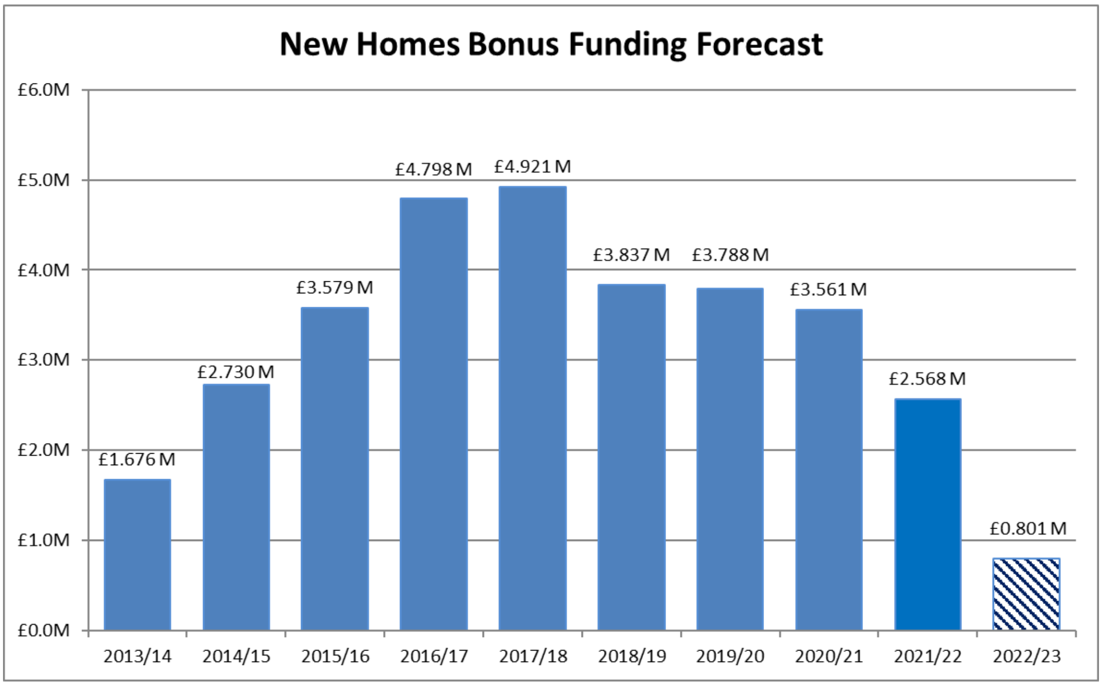
4.4.12 The two largest examples, as at 31 March 2021, were £6.541M in developer contributions for the long term management of adopted open spaces and £3.222M to fund the Asset Management Plan in the current year.

4.4.13 The final sub-category of earmarked reserves is those held for future growth. The largest earmarked reserve the Council carries in its balance sheet is the *New Homes Bonus Reserve*. The New Homes Bonus is a grant paid by central government to local councils for increasing the number of homes and their use.

4.4.14 The Council has been very successful in attracting New Homes Bonus. Actual and forecast amounts received and due, amount to over £32M since it was introduced in 2011/12. The forecast balance on this reserve at 31 March 2022 is £10.19M and is included in the total of revenue and earmarked reserves in the table above (para 4.4.6). It is expected that 2022/23 will be the last year that the New Homes Bonus is paid in its current form. There has been a recent consultation on the future of the scheme, but no details have yet been confirmed as to whether it will be continued.

4.4.15 The Council has not taken this grant into its base budget, but has instead used the reserve to fund projects that have a demonstrable community benefit, such as the Community Asset Fund and funding playground enhancements through the Asset Management Plan.

4.4.16 Details of actual and forecast receipts are shown below:



4.4.17 As we well as revenue reserves, the Council also maintains a ***Capital Receipts Reserve*** from the disposal of assets. The Capital Receipts Reserve can only be used to fund capital expenditure, to repay debt, or to fund credit arrangements subject to the de minimis level set out in the relevant regulations (currently £10,000). All transactions through this reserve are treated in accordance with the provisions of the Local Government Act 2003.

4.4.18 The Head of Finance and Revenues has carried out a detailed review of the Council's usable reserves and looking at current levels of balances, he considers that they will remain adequate for meeting the Council's needs over the medium term, provided that reserves are not used to support an underlying budget gap beyond the very short-term.

5 Financial Context

Government Funding

5.1 Previous Medium Term Financial Strategies have illustrated the dramatic fall that has been felt since the Comprehensive Spending Review (CSR) in 2010. This saw this Council's support through the Settlement Funding Analysis (SFA) fall from £7.11M in 2010/11 to £2.34M in 2019/20.

5.2 Since 2019/20, the SFA allocation has remained consistent, with the government meeting the negative Revenue Support Grant position that this Council has found itself in since 2020/21.

5.3 The budget forecast in this report has been prepared on the assumption that the Government will continue to fund the RSG adjustment (sometimes called "negative RSG") as it did last year.

Business Rates

5.4 The Business Rates Retention Scheme allows Councils to retain a proportion of any growth in business rates income over the baseline amount. The forecasting of business rates income is especially difficult due to the following factors:

(a) The impact of appeals arising from the national business rates revaluation in 2017/18, and

(b) The potential for further reform of the business rates system with Local Government retaining 75% of business rates income. It is possible that more details of this will be released after the Spending Review, but the timing and extent of any reform are currently unknown.

(c) The collection rates achieved by the Council due to changes in businesses' ability to meet rates liability in light of the coronavirus pandemic. The government's retail, hospitality & leisure discount from business rates was scaled back from July 2021 and is expected to end in March 2022.

5.5 As a consequence of the uncertainties identified above, a cautious approach has been taken as to the amount of retained business rates that have been built into the forecast for 2022/23. The retained rates that are included are for 2022/23 only.

5.6 The strategy assumes that there will be a full re-set of the business rates retained income system, effective from April 2023. In the absence of any guidance or information from central government about possible damping or transitional arrangements, all accumulated growth at that point (i.e. £2.5M in 2021/22) is forecast to be lost. An update to these forecasts will be undertaken once the details of the re-set are confirmed.

Council Tax

5.7 With the continuing decline in Government support, Council Tax is now one of the Council's main sources of income.

5.8 The financial strategy aims to keep Council Tax at a comparatively low level, taking into account spending priorities and Central Government funding. This should be set in the context of Central Government's expectations of local authorities and already low levels of Council Tax charged in the borough. The current level of Council Tax at £148.91 is still very low - the 27 lowest out of the 181 district councils in England, and the 4 lowest in Hampshire. It is also £43, or 20%, lower than the average Council Tax payable in the rest of England.

5.9 The MTFS forecast assumes that Council Tax will be increased by £5 in 2022/23. There may need to be an adjustment to the budget forecasts after the government confirms the referendum principles which are usually published in January each year.

<u>Core Spending Power</u>

5.10 As part of the Local Government Finance Settlement, the Government publishes what it calls "Core Spending Power", i.e. the level of revenue likely to be available to each individual local authority. For this Council it comprises the aggregate of:

(a) The Settlement Funding Assessment amounts;

(b) The council tax requirement (excluding parish precepts);

(c) The New Homes Bonus and

(d) Any transitional grants;

5.11 As set out in previous paragraphs, the MTFS has been based on assumptions that there will be a full reset of the Business Rates Retention Scheme from 1 April 2023 and a phasing out of the New Homes Bonus Scheme, leading to a severe reduction in the Council's Core Spending Power. A lower-tier services grant was paid in 2021/22 to sustain core spending power levels, but there is no certainty that it will be continued and is not factored into this forecast.

5.12 With accumulated business rates growth expected to be lost from April 2023, there is an expected to be a reduction in spending power of over 25% from 2021/22 levels over the medium term.

5.13 The table below shows the financial impact of expected changes over the medium term:

Core Spending Power Forecast

	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m
Business Rates	4.897	5.041	5.084	2.405	2.405
Revenue Support Grant	-	-	-	-	-
New Homes Bonus	3.375	1.575	0.801	-	-
Transitional Grants	-	0.574	-	-	-
Council Tax	7.643	7.826	8.154	8.488	8.826
Total Resources	**15.915**	**15.016**	**14.039**	**10.893**	**11.231**
Annual % change	-1%	-6%	-7%	-22%	3%
Proportion raised from Council Tax %	48%	52%	58%	78%	79%

6 Key Budget Pressures and Influences

6.1 The largest source of cost pressure comes from inflation. In order to maintain price stability, the Government has set the Bank of England's Monetary Policy Committee (MPC) a target for the annual inflation rate of the Consumer Prices Index (CPI) of 2%.

6.2 CPI inflation has been steadily increasing throughout the course of 2021, from 0.7% in January to a current rate of 3.2% - the highest it has been since March 2012.
[www.ons.gov.uk/economy/inflationandpriceindices - August 2021](www.ons.gov.uk/economy/inflationandpriceindices).

6.3 In its August monetary policy report, the Bank of England forecast that inflation is expected to increase further to approximately 4% before returning to the target rate of 2% in early 2023.

6.4 Inflation allowances have been built into the budget forecasts at £600,000 p.a. over the rest of the medium term.

Revenue impact of the Capital Programme

6.5 The capital programme is currently financed through a combination of capital receipts supplemented by specific grants and contributions. The balance on the Capital Receipts Reserve at 31 March 2021 was £10.8M.

6.6 All known revenue impacts from existing capital projects have been built in to the medium term forecast. No allowance has been made for future revenue impacts arising from capital expenditure decisions.

Interest Rates

6.7 The Council's Treasury Adviser, Link Asset Services, has provided the following forecasts of interest rates:

	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023
Bank Rate	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5yr PWLB	1.4%	1.4%	1.5%	1.5%	1.6%	1.6%	1.6%	1.7%	1.7%
10yr PWLB	1.8%	1.8%	1.9%	1.9%	2.0%	2.0%	2.0%	2.1%	2.1%
25yr PWLB	2.2%	2.2%	2.3%	2.3%	2.4%	2.4%	2.4%	2.5%	2.5%
50yr PWLB	2.0%	2.0%	2.1%	2.2%	2.2%	2.2%	2.2%	2.3%	2.3%

6.8 These forecasts will continue to be reviewed over the next few months and before any borrowing is undertaken.

6.9 The MTFS forecast is based on base rate levels remaining at their current 0.1% rates. If rates do increase over the medium term it is recommended that any additional income is used to re-establish an equalisation reserve that can be used to offset future changes in interest rates.

Potential Budget Pressures

6.10 The budget forecast for 2022/23 has built in the impact of new budget approvals that have been confirmed in the year. The forecast also includes a budget pressure of £145,000 in respect of the estimated increase in employer's National Insurance contributions that will be effective from April 2022.

6.11 A number of additional potential budget pressures have been identified in the preparation of the MTFS. It is not possible at this time to accurately estimate the cost of these. An allowance of £300,000 has been included as a pressure when assessing the likely budget deficit to be closed. The potential pressures include:

- Additional revenue costs associated with cloud hosting as we move away from local storage on our own hardware.
- Asset Management Plan requirements have regularly exceeded available funding. An increase to the base budget contribution of £1.6M is needed to ensure that the Council can continue to manage its property, vehicle and IT asset base.
- Funding the necessary expenditure to deliver a robust local plan is provided by way of an earmarked reserve to reflect the uneven spend from one year to another. This reserve does not have sufficient capacity to meet the expected demand over the next year and will require a further revenue contribution.
- Climate Emergency Action Plan. There is no dedicated funding set aside to deliver our climate change goals.
- The Environment Bill. It is likely that there will be significant change to the way that domestic waste is collected in the short-medium term. This will inevitably be more expensive than the current system and there is no certainty as to the level of government funding, if any, that will be available to deliver the new requirements.
- Car parking income levels remain depressed following the removal of restrictions. A budget pressure of approximately £500,000 was built in to the 2021/22 budget to reflect expected lower demand for parking. This has proved to be relatively accurate in the year to date and the Council must be prepared for parking income not to return to previous levels.

Project Enterprise

6.12 Since 2014, the Council has completed eight commercial property investments; fourteen house purchases; and delivered two regeneration projects on Walworth Business Park – the latter in partnership with our development partner, Kier Property Ltd. A third regeneration project is under construction and a fourth has been approved but not yet commenced.

6.13 The total cost of the property acquisitions to date is in excess of £29M, with an annual income in the 2020/21 financial year of £2.06M (more details can be found in the Project Enterprise Outturn report to Cabinet in June 2021).

6.14 The income derived from these investments has been critical to the Council's ability to set balanced budgets without reducing frontline services in recent years, during a time in which core spending power has been dramatically reduced.

6.15 CIPFA and government guidance is being tightened to prevent local authorities from borrowing for any investment purposes. The Council will continue to seek further opportunities for Project Enterprise acquisitions whilst taking note of any prudential borrowing guidelines.

6.16 The capital programme includes £3M for future Project Enterprise acquisitions, though no projects have yet been identified. These could be completed without the need to undertake external borrowing.

<u>Hampshire County Council's Savings Proposals</u>

6.17 When the 2021/22 budget was set, a revenue pressure of £404,000 was built into the medium term forecast from 2022/23 in respect of Hampshire County Council's (HCC's) plans to transform its budget over the medium term. This pertains to two elements of recycling-related income and expenditure.

6.18 It is not now expected that any change in this regard will be implemented until April 2023 at the earliest. A further review of the potential impact of this change has identified that the maximum pressure has also reduced to £306,000 as a result of changes to the sale value of dry mixed recyclables.

6.19 The MTFS assumes that the reduced pressure will be used to close the budget gap. The one-off saving from the ongoing pressure that has been deferred for one year will be used to increase the Asset Management Plan reserve.

7 Overall Revenue Budget Summary

7.1 The Revenue Forecasts for 2022/23 to 2024/25 have been drawn up at a macro level. They do not constitute detailed budgets, which will continue to be prepared on an annual basis within the normal timescales. However, the costing of specific issues and evaluation of proposed developments has informed the forecast.

7.2 The forecast is based on a middle case scenario using the assumptions shown in annex 2. It should be recognised that there will not be sufficient resources to meet all the service delivery ambitions and priorities of the Council without the generation of significant savings or additional income. This financial strategy for the three year period to 2024/25 should ensure that the financial resources of the Council continue to be aligned to the delivery of the Council's service and organisational priorities.

7.3 Achieving the improvements that the Council has set itself will require difficult policy decisions and resource choices to be made.

7.4 The budget principles and guidelines outlined in this strategy will allow for a phased use of reserves over the medium term to allow time to adjust to an ever-decreasing amount of external support. The proposed use of retained Business Rate growth will help the budgetary position in the short-term. The forecast shows that a budget gap of £434,900 remains to be closed for 2022/23, with further increases in both 2023/24 and 2024/25.

7.5 Current projections indicate the following financial position:

Revenue Budget Summary Statement 2022/23 - 2024/25

	Para. Ref.	2021/22 £000s	2022/23 £000s	2023/24 £000s	2024/25 £000s
Base budget		**5,887.1**	**5,887.1**	**13,673.3**	**14,124.2**
Base Budget Changes			(198.2)	781.4	81.4
Annual Inflation	6.1		600.0	600.0	600.0
Collection Fund					
Reversal of COVID related deficit in 2020/21			7,081.4		
Changes to retained business rates income and levy			1,623.6	(191.0)	
Changes to cost baseline					
Reversal of COVID service pressures			(2,496.0)		
Borrowing costs			(0.8)	(0.9)	(1.0)
Budget Pressures			459.8	312.0	
End of New Homes Bonus			800.6		
Reserves:					
Transfer to/(from) reserves			(84.2)	(1,050.6)	
General Fund Requirements		**5,887.1**	**13,673.3**	**14,124.2**	**14,804.6**
Financed by:					
Revenue Support Grant	5.2	0.0	0.0	0.0	0.0
Locally retained Business Rates Baseline	5.4	(2,381.3)	(2,405.0)	(2,405.0)	(2,405.0)
Locally retained Business Rates Growth	5.5	(2,660.2)	(2,679.0)	0.0	0.0
Repayment of coronavirus deficit		7,081.4	0.0	0.0	0.0
Share of Collection Fund Balance		(101.1)	0.0	0.0	0.0
Council Tax	5.9	(7,492.6)	(7,821.1)	(8,154.6)	(8,493.2)
Special Expenses Levy	4.2 (b)	(333.3)	(333.3)	(333.3)	(333.3)
Total Financing		**(5,887.1)**	**(13,238.4)**	**(10,892.9)**	**(11,231.5)**
Budget Gap		**0.0**	**434.9**	**3,231.3**	**3,573.1**

7.6 Details of efficiency savings and income generation proposals are currently being gathered together for Members' consideration in terms of the funding gap identified above and these will be presented to Cabinet in January 2022. The Cabinet will then decide on which options should be taken forward as recommendations to full Council as part of the budget setting process in February 2022.

7.7 The review of reserves in para 4.4 sets out that the Council maintains a number of equalisation reserves to soften the impact of sharp changes to the core budget baseline. The most important of these is the Collection Fund Equalisation Reserve, which is held primarily to cushion the impact of the business rates reset, when it eventually happens.

7.8 The balance on that reserve at 31 March was £9.254M. This is an artificially high balance caused by the implementation of business rates reliefs after the 2020/21 budget was set. This timing difference will unwind in the current year with the balance expected to be £2.154M by 31 March 2022.

7.9 Use of reserves for any purpose other than to offset any residual coronavirus impacts on Council budgets or to mitigate the business rates reset is not recommended.

8 Achieving the Medium Term Financial Strategy

8.1 In recent years the Council has been able to set a balanced budget through a combination of the following:

- Corporate Challenge process.
- Procurement savings.
- Improving value for money.
- Service transformation.
- Savings from partnership and shared services.
- Generating additional income through use of fees and charges.
- Generating additional income through external funding sources.
- Generating additional income through Project Enterprise.

8.2 However, the current forecast budget shortfall, coupled with level of uncertainty that is currently faced by this Council, and others across the country, is so acute that it is unlikely that these factors alone will be able to balance the budget in the medium term.

8.3 Without further government support or the certainty of how a business rates re-set will affect our budgets, it is probable that the controlled use of earmarked reserves will be required to balance the budget over the next two or three years. This is not a sustainable position to maintain as reserves can only be used once. However, using reserves in a controlled manner over a defined period will enable the Council to take the time to deliver sustainable savings that continue to deliver the best outcomes for the citizens of Test Valley.

8.4 Annex 1 outlines the proposed action plan that will be pursued to ensure that any draws from reserves are minimised to the minimum level possible.

9 Capital Strategy

9.1 The Capital Strategy will be reviewed and updated in February 2022, but is unlikely to change significantly. The strategy sets out the following key principles:

(a) Linking together capital requirements related to corporate priorities for new projects and the ongoing capital need to maintain / repair existing assets through the Asset Management Plan.

(b) Managing the approved Capital Programme in an affordable, financially prudent and sustainable way.

(c) How new bids are introduced to the Capital Programme and understanding the revenue implications associated with new capital expenditure.

(d) Monitoring progress against approved budgets.

(e) Financing capital expenditure including borrowing requirements and Minimum Revenue Provision (MRP).

(f) Purchase of commercial properties and the resources required to ensure due diligence.

(g) Knowledge and skills.

9.2 Full details of the existing strategy can be found in the Cabinet report on 10 February 2021.

10 Corporate Objectives and Priorities

10.1 Using its investing approach, the Council's priorities are focussed on **growing the potential of**:

- **Town Centres** - to adapt and be attractive, vibrant, and prosperous places.
- **Communities** - to be empowered, connected and able to build upon their strengths.
- **People** - to be able to live well and fulfil their aspirations.
- **The Local Environment** - for current and future generations.

10.2 The Council will ensure that budgets are directed towards these key priorities. The mechanism for achieving this is the Council's Strategic Planning Framework (corporate clockwork), which includes a timetable for developing budgets and service plans to ensure that budgets are aligned to these priorities.

11 Consultations / Communications

11.1 The information contained in this report will form the basis for future discussions about the 2022/23 budget. It will go forward to the Budget Panel of the Overview & Scrutiny Committee for comments on 10 January 2022.

11.2 The budget consultation with businesses will take place in the next three months. The final form of the consultation is not yet decided, but is expected to be carried out online as has been successfully delivered in recent years.

11.3 Once the provisional Local Government Finance Settlement has been received in late December / early 2022 it will be necessary to update the current figures and to take account of the comments made by the Overview and Scrutiny Committee and the views of businesses.

12 Risk Management

12.1 A risk assessment has been completed in accordance with the Council's Risk management process and has identified the significant (Red or Amber) risks shown in the following table:

Risk	Likelihood	Impact	Management of Risk
Impact of Business Rates reset – **RED**	High **B**	Critical **III**	Set aside current growth income into an earmarked reserve to mitigate the impact of the reset. Closely monitor government messages about the timing and extent of a reset to enable detailed financial modelling to be undertaken.
Future resources less than assumed - **AMBER**	Significant **C**	Critical **II**	Revenue: Assess impact of Budget, Spending Review and Local Government Finance Settlement at the earliest opportunity. Monitor collection rates for local taxation. Capital: Schemes and projects kept on reserve list until resources are confirmed. Monitor the amount of future usable capital receipts.
Income targets are not achieved **- AMBER**	High **B**	Significant **III**	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
The impacts of coronavirus on budgets are greater than forecast or last longer than expected – **AMBER**	Significant **C**	Significant **III**	Continual review of budgets and services affected by coronavirus. Ensuring all claims for government support are submitted, to the fullest extent possible, in a timely manner.
Additional costs arising from contract re-negotiation as a result of coronavirus - **AMBER**	Significant **C**	Critical **II**	Ensuring that the Council's contracts are thoroughly reviewed to ensure that budgetary impacts are mitigated where possible.
Savings anticipated from reviews are not delivered - **AMBER**	Significant **C**	Significant **III**	Renew corporate challenge process in 2021. Continue digital transformation efficiency focus. Closely monitor progress of budget / efficiency savings through monthly budget monitoring. Use of the Budget Equalisation Reserve if necessary.
Legislative changes not anticipated **- AMBER**	Low **D**	Significant **III**	Keep up to date with Government policy and consultations.
Inflation estimates vary from those assumed **- AMBER**	High **B**	Significant **III**	These factors have a large influence on the revenue budgets. Inflation currently at a higher level than it has been at for 10 years. Inflationary factors to be reviewed regularly.
Future spending requirements are under-estimated **- AMBER**	Significant **C**	Significant **III**	Review Service Plans and spending projections. Closely monitor progress through budget / performance monitoring.

Revenue implications of capital decisions are not taken into account - **AMBER**	Low **D**	Significant **III**	Capital approval processes to be reviewed to ensure all revenue consequences continue to be identified at the earliest opportunity.
Staffing budgets are not sufficiently controlled - **AMBER**	Low **D**	Significant **III**	Rigorous process is already in place for filling posts and managing vacancy targets.
Investment in priority areas does not lead to desired outcomes being achieved **– AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly monitoring reports. Linking budget approvals to Corporate Action Plan projects.
Standards of service fall, particularly in non-priority areas **- AMBER**	Significant **C**	Significant **III**	Robust performance management framework incorporating quarterly performance monitoring reports.
Increased demand for homelessness assessments and temporary accommodation - **AMBER**	Significant **C**	Significant **III**	Review the impact of Universal Credit rollout and the Homelessness Reduction Act additional responsibilities.

13 Resource Implications

13.1 Resource implications are contained within the Strategy itself.

14 Legal Implications

14.1 The Council is required to set a robust and balanced budget under the Local Government Act 2003. This report is the first step towards achieving this aim for the 2022/23 budget.

15 Equality Issues

15.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

16 Conclusion and reasons for recommendation

16.1 The Council is facing a set of circumstances that together make forecasting a budget harder than has ever been the case before.

16.2 This MTFS takes account of all known financial implications and makes various assumptions in projecting the budget forward for the next three years. However, the Council faces significant financial uncertainty resulting from the coronavirus and there is a lack of information on which to accurately forecast material income streams, such as business rates. This clearly makes any accurate financial planning difficult to achieve.

16.3 The budget position outlined in the Medium Term Financial Forecast is not inconsistent with the position most other Local Authorities will face. However, significant savings will need to be found over the coming years and there is the possibility that the controlled use of reserves will be required in the short-to-medium term.

16.4 The MTFS is recommended for approval for the following reasons:

- To ensure that the Council has a strategic approach to the management of its finances, and

- To enable available resources to be allocated to services in line with Council priorities over the medium term.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	N/A
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Report to:	Cabinet	Date:	27 October 2021