Report to Cabinet – 26 October 2022 **APPENDIX**

Medium Term Financial Strategy 2023/24 – 2025/26

Report of the Finance and Resources Portfolio Holder

Recommended:

1. **That the Medium Term Financial Strategy (MTFS) for 2023/24 to 2025/26 be approved.**
2. **That the Medium Term Financial Forecast, as shown in Annex 5 to the report, be noted.**

Recommendation to Council

SUMMARY:

- This MTFS sets out the framework within which the 2023/24 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 2023/24 budget.
- The strategy considers the potential impact of macro-economic factors such as inflation and interest rate forecasts and considers the effects they 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 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 2023 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 re-setting of the business rates baseline is still awaited. This could affect almost £3M per annum of retained business income and has been due since 2017. This forecast assumes that no changes will be made that will affect the 2023/24 financial year.
- Inflation is at a decades-high level and will increase the budget requirement for the medium term beyond levels previously assumed.
- Interest rates have begun to increase steadily in recent months. This has the potential to increase investment returns from our cash portfolio, helping to close the budget gap.

2.3 Business Rates

2.3.1 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.

2.3.2 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.

2.3.3 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.

2.3.4 This strategy assumes that all accumulated growth will be lost at a re-set that comes into effect in April 2024. The potential impact of this, together with ways to mitigate the risk, are discussed later in the report.

2.4 Interest Rates

2.4.1 In September 2022, the Bank of England increased the base interest rate for the sixth time in the year, with the new rate set at 2.25%.

2.4.2 Market forecasts largely expect further increases to the base rate before the Council sets its 2023/24 budget. These forecasts show a peak in the summer of 2023 before starting to fall back later in the year.

2.4.3 The Council holds a significant cash investment portfolio, with an average portfolio of approximately £70-80M over the medium term. The higher the interest rate that is forecast, the greater the income the Council will generate from those investments.

2.4.4 It is therefore likely that the income generated in 2023/24 will be higher than that expected to be achieved over the remainder of the medium term forecast. Care will be taken not to build this peak in income into the base budget to avoid creating budget pressures in later years.

2.5 Inflation

2.5.1 One of the primary reasons for the increases in interest rates noted above is its use to combat the very high levels of inflation currently being experienced, particularly with regard to energy costs.

2.5.2 Bank of England inflation forecasts show inflation peaking in early 2023 before slowly returning to more typical levels over the next two years.

2.5.3 The biggest impacts on the Council's budget will be in terms of pay and energy prices. Despite recent caps being announced, it is forecast that electricity and gas price inflation will be in excess of 100%, adding more than £500,000 to the base budget.

2.6 Coronavirus

All known ongoing financial impacts of the coronavirus pandemic have been built into the budget for 2022/23. The most significant budget adjustment that was needed in the current year was in respect of car parking income, which has fallen by approximately £500,000 per annum from pre-COVID levels.

Other factors affecting the budget

2.7 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.

2.8 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 gap.

2.9 As the masterplan projects move towards the delivery phases, it is anticipated that it will be necessary to recruit to new posts that will have the expertise to successfully deliver them. The MTFS makes allowance for that potential growth in the cost base to enable this to happen. Any growth bid will be subject to the usual reporting and approval processes at the appropriate time.

2.10 The Council has ambitious targets set out in its Climate Emergency Action Plan. Delivery of these ambitions will require substantial investment in both our existing asset base as well as new initiatives. The timing and total cost of achieving this is far from certain, therefore the MTFS will need to be flexible to enable funding to be identified as projects come forward.

2.11 It is unlikely that any real detail will emerge from central government over the next month or so to help inform budget forecasts. However, a focus will be held on news affecting local government that emanates from Westminster.

2.12 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.

2.13 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?

(b) What funding settlement will local government get in 2023/24? Will the New Homes Bonus and lower tier services grant be continued?

2.14 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 ensure that consideration is given to addressing a changing climate in the decisions that it takes.

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

(v) 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.

(vi) 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.

(vii) The Council will secure value for money and have regard to environmental considerations in the procurement of supplies and services.

(viii) The Council will review its fees and charges and seek only to increase charges by amounts commensurate with increases in the costs of providing those services, unless market conditions render this inappropriate.

(ix) 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.

(x) 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.

(xi) 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.

(xii) 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; or to smooth the impact of major changes to base budget assumptions.

(xiii) 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.

Budgetary Assumptions

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

Revenue

(a) The Test Valley element of Council Tax being increased annually by £5 in each of the next three years.
(b) The Andover Special Expenses Levy being re-calculated ahead of the 2023/24 financial year and then being adjusted each year in line with the main TVBC precept for 2024/25 and 2025/26.
(c) The minimum level of working reserves is maintained at £2.6m over the financial strategy period.
(d) Earmarked reserves to be used for one-off purposes only or to offset the impacts of the business rates re-set.
(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 6.11 and 6.13.
(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.

4.3 *Capital*

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 2023.

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 In 2022/23, a draw of £250,000 from the Budget Equalisation reserve was approved to phase in, over two years, the impact of reduced car parking receipts as a result of the pandemic. This strategy does not include draws from earmarked reserves to help meet ongoing revenue pressures.

4.4.5 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

	31/3/19 £000s	31/3/20 £000s	31/3/21 £000s	31/3/22 £000s	31/3/23 £000s Forecast
Usable Revenue Reserves					
General Fund Balance	2,000	2,604	2,604	2,604	2,604
Future risk / budget equalisation	4,948	4,787	3,835	6,302	4,094
Ring-fenced for specific use	11,829	12,143	13,047	14,217	12,311
New or predicted growth	4,779	7,216	10,282	14,028	15,057
Coronavirus Timing Reserves	0	0	7,716	673	0
Total Usable Reserves	23,556	26,750	37,484	37,824	34,066

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

4.4.7 Notwithstanding the short-term increases in reserves caused by timing differences around a number of COVID grants and business rates reliefs, there is a trend of increasing reserve levels.

4.4.8 This is mainly due to forward planning for major future works, such as the regeneration projects where annual contributions have been made to build a reserve with sufficient capacity to enable project delivery over the medium term. Similarly, the New Homes Bonus has continued to be added to a reserve that can be used to continue funding expenditure such as the Community Asset Fund into the medium term.

4.4.9 Unallocated reserves which are held to mitigate future budget fluctuations have remained relatively stable over the period shown.

4.4.10 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.

4.4.11 ***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

4.4.12 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, inflation or the timing of a business rates re-set.

4.4.13 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.

4.4.14 The two largest examples, as at 31st March 2022, were £7.297M in developer contributions for the long term management of adopted open spaces and £3.070M to fund the Asset Management Plan in the current year.

4.4.15 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.

4.4.16 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.

4.4.17 As we well as revenue reserves, the Council also maintains a ***Capital Receipts Reserve*** from the disposal of assets and transfers from the General Fund. 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 was felt following 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.

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

5.3 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. A new rating list is being introduced in 2023 which will bring further opportunities for appeals from ratepayers.

(b) The potential for further reform of the business rates system. There have been numerous new reliefs implemented in recent years and the entire system is subject to lobbying about its fitness for purpose.

(c) The introduction of an updated rating list with effect from 1st April 2023 and the impact changes in rateable value will have on businesses' ability to pay.

5.4 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 2023/24.

5.5 The strategy assumes that there will be a full re-set of the business rates retained income system, effective from April 2024. A reasonable worst case scenario is that accumulated growth of approximately £2.7M per annum could be lost as a result of this process.

5.6 However, it is likely that there will be transitional arrangements for those Councils most negatively affected and it will be possible to draw from a dedicated reserve established to mitigate volatility in business rates income. The medium term forecast allows for these mitigations in assessing a forecast budget gap for 2024/25 and 2025/26.

5.7 An update to these forecasts will be undertaken once the details of the re-set are confirmed.

Council Tax

5.8 Council Tax is one of the Council's main sources of income, generating more than £8M per annum.

5.9 The MTFS 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 £153.91 is still very low - the 27th lowest out of the 181 district councils in England, and the 4th lowest in Hampshire. It is also £38, or 20%, lower than the average Council Tax payable in the rest of England.

5.10 The MTFS forecast assumes that Council Tax will be increased by £5 for a band D property in 2023/24. 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.

5.11 In making the assumption that the Council Tax level will increase by £5, it is recognised that the Council continues to maintain a generous Council Tax Support scheme, offering up to 100% relief from Council Tax for pensioners and households in receipts of certain benefits. Up to 90% relief is available for low-income working-age households.

Core Spending Power

5.12 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 Lower Tier Services Grant and

(d) Any transitional grants

5.13 As set out in previous paragraphs, the MTFS has been based on assumptions that there will be a full re-set of the Business Rates Retention Scheme from 1st April 2024 and a phasing out of the New Homes Bonus Scheme, leading to a reduction in the Council's Core Spending Power. The lower-tier services grant was introduced in 2021/22 (and continued into 2022/23) to sustain core spending power levels, but there is no certainty that it will be continued.

5.14 This forecast assumes that the Lower Tier Services Grant will continue into 2023/24 but at a lower level than was received in the current year.

5.15 With accumulated business rates growth expected to be lost from April 2024, there is expected to be a reduction in spending power of around 20% from 2022/23 levels over the medium term.

5.16 The table below shows the financial impact of expected changes over the medium term and the increasing reliance on Council Tax as a sustainable source of income:

Core Spending Power Forecast

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Business Rates	5.041	5.084	5.105	2.405	2.405
Revenue Support Grant	-	-	-	-	-
New Homes Bonus	1.575	0.801	-	-	-
Transitional Grants	0.574	-	-	-	-
Council Tax	7.826	8.241	8.578	8.919	9.265
Total Resources	**15.016**	**14.126**	**13.683**	**11.324**	**11.670**
Annual % change	-6%	-6%	-3%	-17%	3%
Proportion raised from Council Tax %	52%	58%	63%	79%	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 is at a decades-high level, with a rate of inflation of 9.9% in August 2022. One of the main reasons for this is rising utility costs which are far higher than the overall reported figure. More information on inflation rates

can be found at the link below.
www.ons.gov.uk/economy/inflationandpriceindices - September 2022.

6.3 In its August monetary policy report, the Bank of England forecast that inflation is expected to increase further to approximately 13% before starting to fall next year. It is not expected that the 2% target rate will be achieved for around two years.

6.4 The impact of inflation, particularly for pay and utility costs has meant that inflation estimates have been increased by £1.6M for 2023/24 above that included in forecast when the current year budget was set in February 2022.

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 31st March 2022 was £7.9M.

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 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Bank Rate	4.0%	5.0%	5.0%	5.0%	4.5%	4.0%	3.75%	3.25%	3.0%
5yr PWLB	5.0%	4.9%	4.7%	4.5%	4.2%	3.9%	3.7%	3.5%	3.4%
10yr PWLB	4.9%	4.7%	4.6%	4.3%	4.1%	3.8%	3.6%	3.5%	3.4%
25yr PWLB	5.1%	4.9%	4.8%	4.5%	4.3%	4.1%	3.9%	3.7%	3.6%
50yr PWLB	4.8%	4.6%	4.5%	4.2%	4.0%	3.8%	3.6%	3.4%	3.3%

6.8 These forecasts will continue to be reviewed over the next few months. It does show that borrowing is likely to be more expensive in the short term and therefore no new external borrowing is planned in the strategy.

6.9 The above table shows the unusual forecast of a short-term spike in interest rates that will revert to more typical levels over the next two years.

6.10 The MTFS recognises this fluctuation and sets a baseline level with interest rates at 3%. Where it is anticipated that actual returns will be greater than this in any one year, the balance will be recommended to be transferred to reserves rather than building an over-reliance on this income into the base budget.

Potential Budget Pressures

6.11 The budget forecast for 2023/24 has built in the impact of new budget approvals that have been confirmed in the year.

6.12 The most significant pressure is related to inflation, where forecasts estimate that an additional £500,000 will be required in 2023/24 above existing baseline levels. Inflation will also be a factor across all service areas with an overall forecast that an inflationary pressure of c£1M will be required in total.

6.13 Alongside the specific inflationary pressures, there are other known budget pressures that will affect the Council in future years but for which it is not yet possible to identify specific amounts. These include:

- Regeneration of town centres. This a key priority of the Council and it will be necessary to invest heavily in these projects to see their successful implementation.
- Climate Emergency Action Plan. There is no dedicated funding set aside to deliver our climate change goals at present, However, projects are coming forward that will help deliver the Climate Emergency Action Plan and capacity must be found to adequately finance them.
- The Environment Act. 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, for example through the introduction of weekly food-waste collection, and there is no certainty as to the level of government funding, if any, that will be available to deliver the new requirements.

Project Enterprise

6.14 Since 2014, the Council has completed eight commercial property investments; fourteen house purchases, refurbished and re-let a further seven houses; and delivered three regeneration projects on Walworth Business Park – the latter projects in partnership with our development partner, Kier Property Ltd.

6.15 The total cost of the property acquisitions to date is in excess of £29M, with an annual income in the 2021/22 financial year of £2.11M (more details can be found in the Project Enterprise Outturn report to Cabinet in June 2022).

6.16 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.

6.17 CIPFA and government guidance has been tightened to prevent local authorities from borrowing where commercial investment acquisitions are approved as part of the capital programme. The Council will continue to seek further opportunities for Project Enterprise acquisitions, whilst giving due consideration to any prudential borrowing guidelines that may affect the capital programme or financing of key projects such as the regeneration of town centres.

Hampshire County Council's Savings Proposals

6.18 When the 2022/23 budget was set, a revenue pressure of £306,000 was built into the medium term forecast from 2023/24 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.

6.19 It is expected that these changes will not be implemented until April 2024 at the earliest. The medium term forecast has been updated to reflect the likely implementation date of these changes. The deferral of the budget pressure helps to close the budget gap for 2023/24.

7 Overall Revenue Budget Summary

7.1 The Revenue Forecasts for 2023/24 to 2025/26 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 an expected most likely 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 2025/26 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 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 the potential re-basing of retained business rates income levels. The forecast shows that a budget gap of £204,000 remains to be closed for 2023/24, with further increases of over £1M in both 2024/25 and 2025/26.

7.4 Current projections indicate the following financial position:

Revenue Budget Summary Statement 2023/24 - 2025/26

	Para. Ref.	2022/23 £000s	2023/24 £000s	2025/26 £000s	2024/25 £000s
Base budget		**9,375.9**	**9,375.9**	**13,905.1**	**13,655.9**
Base Budget Changes			530.3	350.9	329.1
Annual Inflation	6.1		1,620.0	800.0	800.0
Collection Fund					
Changes to retained business rates income and levy			2,805.7	(18.0)	
Changes to cost baseline					
Changes to government grant income			340.9	200.0	
Capital Financing Adjustments			4.5	4.5	4.7
Investment Income & Borrowing costs			(1,730.4)	194.5	(6.5)
Budget Pressures			632.0	66.0	(39.0)
Savings and Income			(1,369.0)	(142.0)	236.0
End of New Homes Bonus			2,104.7		
Reserves:					
Transfer to/(from) reserves			(409.5)	(1,705.1)	417.7
General Fund Requirements		**9,375.9**	**13,905.1**	**13,655.9**	**15,397.9**
Financed by:					
Revenue Support Grant	5.2	0.0	0.0	0.0	0.0
Locally retained Business Rates Baseline	5.3	(2,381.3)	(2,405.0)	(2,405.0)	(2,405.0)
Locally retained Business Rates Growth	5.5	(698.2)	(2,718.0)	0.0	0.0
Transitional relief following Business Rates Reset		0.0	0.0	(1,000.0)	(500.0)
Share of Collection Fund Balance		1,944.9	0.0	0.0	0.0
Council Tax	5.8	(7,901.4)	(8,237.6)	(8,578.7)	(8,924.9)
Special Expenses Levy	4.2 (b)	(339.9)	(339.9)	(339.9)	(339.9)
Total Financing		**(9,375.9)**	**(13,700.5)**	**(12,323.6)**	**(12,169.8)**
Budget Gap		**0.0**	**204.6**	**1,332.3**	**3,228.1**

7.5 Details of efficiency savings and income generation proposals that have been identified in the early stages of the budget setting process are shown in Annexes 3 and 4 to the report. These relate primarily to additional income and analysis of prior year activity when compared to base budget levels. 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 2023.

7.6 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 re-set, when it eventually happens.

7.7 The provisional balance on that reserve at 31st March 2022 was £4.070M. It has been assumed that an initial draw of up to £1.5M will be taken in 2024/25 if a business rates re-set adversely affects the Council. This draw would reduce to £1M and then £500,000 over the following two financial years to bring the new budget position into the base over a three year period.

7.8 Use of reserves for any purpose other than to mitigate potential losses from a business rates re-set 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 Whilst the current forecast for 2023/24 is manageable, the medium term position is far less certain with significant risk to one of the main sources of income; the need to finance major regeneration projects; and increasing costs of delivering refuse services potentially all impacting the budget over the period of this strategy.

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 kept to the minimum level possible.

9 Capital Strategy

9.1 The Capital Strategy will be reviewed and updated in February 2023, 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) New bids are introduced to the Capital Programme based on an objective prioritisation and understanding of the revenue implications associated with new capital expenditure.

(d) Monitoring progress against approved budgets will be undertaken regularly by project leads and accounting staff

(e) Financing capital expenditure, including borrowing requirements, will be in line with the Minimum Revenue Provision (MRP) policy

(f) Purchase of commercial properties will take due consideration of MRP policy and impacts on the Council's ability to borrow.

9.2 Full details of the existing strategy can be found in the Cabinet report on 23rd February 2022.

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.

10.3 The MTFS recognises that a new Corporate Plan for 2023-2027 will be approved in the coming months. The strategy has the ability to flex so that it respond to any new priority areas that the Council may identify over the medium term.

11 Consultations / Communications

11.1 The information contained in this report will form the basis for future discussions about the 2023/24 budget. It will go forward to the Budget Panel of the Overview & Scrutiny Committee for comments on 12th January 2023.

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 2023 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 re-set – **RED**	High **B**	Critical **II**	Set aside current growth income into an earmarked reserve to mitigate the impact of the re-set. Closely monitor government messages about the timing and extent of a re-set to enable detailed financial modelling to be undertaken.
Future resources less than assumed - **AMBER**	Low **D**	Critical **II**	Revenue: Assess impact of Local Government Finance Settlement at the earliest opportunity. Monitor collection rates for local taxation and rental income. Capital: Schemes and projects kept on reserve list until resources are confirmed. Monitor the amount of future usable capital receipts.
Insufficient resources are identified to deliver masterplan objectives - **AMBER**	Significant **C**	Critical **II**	Transfer to regeneration reserve included in base budget. Maximum external funding sources to be identified for each stage. Robust project planning and governance process.
Income targets are not achieved **- AMBER**	High **B**	Significant **III**	Monthly monitoring of budgets and projections. Use of the Income Equalisation Reserve if necessary.
Additional costs arising from contract re-negotiation due to inflation / supplier failure - **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**	Low **D**	Significant **III**	Renew corporate challenge process in 2022. 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 many 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.
Staffing budgets are not sufficiently controlled **- AMBER**	Low **D**	Significant **III**	Rigorous process is already in place for filling posts and managing vacancy targets.
Standards of service fall, particularly in non-priority areas **- AMBER**	Low **D**	Significant **III**	Robust performance management framework incorporating quarterly performance monitoring reports.

Increased demand for homelessness assessments and temporary accommodation - **AMBER**	High **B**	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 2023/24 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 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 volatility in macro-economic factors beyond its control. This clearly makes any accurate financial planning difficult to achieve.

16.2 Whilst the position for 2023/24 is expected to be manageable, significant savings will need to be found over the remainder of the medium term period and there is the possibility that the controlled use of reserves will be required in the short-to-medium term.

16.3 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.

<table>
<tr><td colspan="4">Background Papers (Local Government Act 1972 Section 100D)
None</td></tr>
<tr><td colspan="4">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.</td></tr>
<tr><td>No of Annexes:</td><td>5</td><td>File Ref:</td><td>N/A</td></tr>
<tr><td colspan="4">(Portfolio: Finance and Resources) Councillor M Flood</td></tr>
<tr><td>Officer:</td><td>Carl Whatley</td><td>Ext:</td><td>8540</td></tr>
<tr><td>Report to:</td><td>Cabinet</td><td>Date:</td><td>26 October 2022</td></tr>
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