Agenda Item No:

Report to: **Cabinet**

Date of Meeting: 7 November 2016

Report Title: Medium Term Financial Strategy and 2016/17 Mid-Year Financial Review

Report By: Peter Grace
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Purpose of Report

The council looks to forecast its financial position over the medium term in order to ensure it can align corporate objectives with available resources.

This report highlights variations in costs and income since setting the budget in February 2016 which in turn informs the budget process. The Medium Term Financial Strategy seeks to identify the financial risks that will affect the annual budgets for each of the next 3 years (2017/18 to 2019/20) in order that key priorities can be matched to expected funding.

Recommendation

1. Approve the Medium Term Financial Strategy.

Reasons for Recommendations

The council matches its available resources to its priorities across the medium term.

The report provides the opportunity to assess the council's resources to assist the review of corporate priorities given the continued reductions in funding and the need to continually ensure limited resources are properly aligned to targets.

Introduction

1. The review of the current year’s spending against the budget helps to update and inform the budget process for 2017/18 and beyond.

2. Good financial management requires councils to properly plan for the future in order to match longer term ambitions and plans with anticipated resources. At present there are a number of key areas of financial uncertainty which cause problems when seeking to accurately forecast available resources for the years ahead. The Medium Term Financial Strategy seeks to identify these uncertainties, and where possible make an informed view of the likely resource implications. Where there is no clarity as yet, generally, a prudent approach is adopted.

3. The Council recently accepted the government’s offer for a four year settlement in order to provide some certainty on part of the Council’s funding stream. The government’s autumn statement on 23 November 2016 is expected to provide more details of the resources available over the next 3 years which may impact on the remaining income streams, such New Homes bonus, Discretionary Housing Payments, Disabled Facility grants. The local government settlement is expected to be released in December and will provide confirmation of the 2017/18 settlement and adjustments thereof. The Council can expect the Revenue Support Grant to reduce from £2.835m in 2016/17 to an estimated £988k by 2019/20.

4. For financial planning purposes, the assumption in this Medium Term Financial Strategy is for reductions in Settlement Funding Assessments (government funding and retained business rates) of some 11.5% in 2017/18, 7% in 2018/19 and 8.4% in 2019/20.

Financial Context

5. The council's 2016/17 net budget of £16.58m is broken down across services as follows:-

Service	Net Budget £
Corporate Resources	2,926,000
Operational Services	12,346,000
Interest/ Use of Reserves/ Other Grants and Contingency	1,308,000
Total (Net Council Expenditure)	16,580,000

6. The budget is funded by:-

Funded From	£
Revenue Support Grant	2,835,000
New Homes Bonus – return funding	8,000
New Homes Bonus	1,388,000
Collection Fund Surplus – Council Tax	165,000
Collection Fund Deficit - NNDR	(639,000)
Housing Benefit Administration Grant	759,000
Transition Grant	5,000
Business Rates	3,060,000
Business Rates (Section 31 Grant)	606,000
Business Rates Pooling	58,000
Council Tax	6,054,000
Reserves/Capitalisation	2,281,000
Total (Net Council Expenditure)	16,580,000

2016/17 - Mid year Review

7. There are a number of “overs and unders” within the accounts that help inform budget planning for 2017/18 and beyond.

Income (2016/17)

8. Development Control income is being estimated by the service to be up by some £30,000 against that budgeted (£270,000). In 2015/16 there were a number of one off accounting adjustments that meant outturn was lower than expected but the same adjustments will not be required in 2016/17 so the £270,000 budget may well be achieved.

9. Property – income is currently lower than original budget estimates (some £15,000 estimated by year end), mainly as a result of some voids and Priory Meadow’s profit share being lower due to voids. Some additional costs have also been incurred in preparing assets for disposal. The fees incurred in bringing land and properties to market can be offset against the sale proceeds. Some of the costs being incurred currently will not be offset within this financial year.

10. Investment income is around budget. The interest rates achieved have been lower than the budgeted 0.70% however this has been offset by lower borrowing costs.

11. Business rate income remains an area of high volatility and risk. Whilst the level of business rates collected is on target the level of appeals both nationally and locally is a threat that has materialised and is impacting significantly on the retained

income levels. The council is receiving a separate payment from the government following the extension to the Small Business rate relief scheme – which effectively reduced the council's income from business rates. This further complicates the picture. High levels of appeals remain outstanding (currently some £31m out of a total valuation list of £58m) as the Valuation Office did not determine many appeals as it has been producing the 2017 revaluation.

12. Off-Street Parking income is forecast to be £50,000 higher than budgeted. The reduced number of Parking Control Notices (PCN's) issued suggests that those parking are ensuring they have paid sufficiently for their stay and this is attributed to the increase in the payment methods HBC accept, namely the use of RingGo and acceptance of cards. A good summer and mild autumn to date has resulted in parking income being more buoyant than in previous years.

Expenditure (2016/17)

Inflation

13. The council allowed around 1% overall for inflation on its main contracts in 2016/17. With some £5m of major outsourced contracts, inflation assumptions remain important for budget planning purposes. Inflation in September 2016 (CPI 1%, RPI 2%) is below the government's 2% target level (CPI) but could increase above this level in the near future. Initial estimates indicate that there will be a saving in 2016/17of between £10k and £15k on inflation assumptions.

Other Expenditure

14. Staffing shortages and workload issues within services, particularly planning, have led to the outsourcing of some work along with higher temporary staff costs and advertising/agency fees. A restructure to the service has been approved, effectively increasing the budget to meet service need. Fees are also being proposed for certain planning services and this will offset the increased cost of the service from 2017/18.

15. The Selective licencing position was reported to Cabinet in September. The current position is an adverse variance of £120,805 due to reduced income forecasts for this financial year following from an unexpectedly high take up of the 'early bird' option by licensees. The business plan has been revised to change the focus from processing applications to enforcement so that over the life of the scheme it is hoped the costs will be fully recovered. This will need close monitoring.

16. The Housing Licensing team is forecasting a budget overspend of £199,000 for 2016/17 - the income for the older scheme stopping in September 2016.

17. Some £48,000 of additional monies have been received from the Department of Work and Pensions (DWP) this year in respect of areas generally supported by Community Partnership funding. The service is looking to use this additional grant within 2016/17.

18. Corporate Resources are forecasting a balanced position against the original budget. However this position includes a number of variances but in particular there are overspends due to covering long term sickness. These overspends are offset

by underspends throughout the Directorate including savings on utility costs and staff vacancies.

19. The high level of business rate appeals has remained largely unchanged since 2015/16 when it was announced that a new 2017 revaluation list would be released in 2016 (effective from 2017) and an appeal deadline of March 2015 was put in place. The 2017 list has now been released and assurance has been given that existing outstanding appeals will now be dealt with before any new appeals are considered. Provision has been made in the Collection Fund in 2016/17 to account for the high level of appeals.

20. Council Tax Support Scheme – lower levels of claims continue to be experienced in 2016/17, which results in higher levels of council tax being collected. The caseload is currently 10,699 and represents a decrease of 1.7% from 31 March 2016. Housing Benefit caseload also continues to decrease, now standing at 9,932 – a decrease of 2.4% from 31 March 2016 (the cost of the claims being funded by government in this instance).

21. The original business plan for the Social lettings scheme identified the rapid expansion of the scheme, however in practice it has been much slower. As a consequence income levels have been significantly lower than originally anticipated albeit offset by reduced spend. There is a significant improvement in the 2016/17 position against the original budget deficit forecast for the year (improvement of £75,000 projected). Any surplus at year end will be used to repay the General Fund which was used to support the overspend in 2015/16.

Capital Expenditure

22. The Council's limited Capital expenditure programme remains susceptible to increasing costs of construction and professional fees in the South East. There will be slippage on a number of schemes, including the Country Park Visitor Building, the Castle, and the Coastal Space regeneration project. The overall spend will exceed the original budget estimates following the purchase of Aquila House and approval of the building a further kiosk above bottle alley (subject to market offers). Additional land and property acquisitions in the year have also been approved by the Council – and are subject to negotiation.

2016/17 - Summary of Mid Year position

23. In brief, there are many variations within individual budgets, some of which are identified above. Where the under spends will be of a recurring nature these are of particular significance as they will assist in balancing the budget for future years. Non recurring savings can also assist the council in balancing the budget through "one off" injections of cash or through invest to save projects.

24. There are few illusions about the level of budget reductions required to achieve a sustainable budget in the years ahead. As a result services continue to identify opportunities to make in-year savings and investigate other ways of achieving objectives when staff leave the organisation. To achieve the balanced budget in 2016/17 and beyond, PIER saving targets were set as part of the budget setting process in February 2016 and these will need to be achieved.

25. The major areas of uncertainty include the business Rate appeals, licensing, development control income and also the outstanding claim in respect of the Pier closure (Manolete claim) which is now subject to a hearing in late autumn 2016.

26. The revised budget for 2016/17 is currently being prepared and there will be overs and unders across the whole budget**.** There may be a small saving against the existing budget as a result of a concerted effort to identify potential efficiencies and savings as well as the decisions being taken by Council e.g. purchase of Aquila House. If so, the call on the Transition Reserve may be less than originally expected. Against this is the potential costs arising from the major areas of uncertainty.

Medium Term Financial Strategy

27. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the 3 year period 2017/18 – 2019/20 and these have been produced to reflect the issues identified in the MTFS.

28. The deficits amount to £1.7m in 2017/18, £2.5m in 2018/19 and £3.1m in 2019/20. Work is currently ongoing to reduce these deficits. Proposals for which will be included in the budget in February 2017. Income generation will play a part in helping to close the gap and will be the subject of further reports to cabinet and Council, outside of this year's MTFS.

29. These are for illustrative purposes at this stage, given the uncertainty surrounding the costs of some of the financial pressures and funding levels and the recognition that further work is required to refine these figures before the budget is finalised on 22 February 2017.

30. Members are recommended to approve the Strategy, which will inform the 2017/18 budget setting process.

Anti Poverty, Equalities and Community Cohesiveness

31. The equalities implications of the annual budget proposals are the subject of an Equalities Impact Assessment. Anti-poverty implications will also be addressed as part of the budget proposals.

Risk Management

32. The key risks are identified in the MTFS. The key areas remain future funding, the claim against the Council in respect of the Pier, business rate appeals.

Economic/Financial Implications

33. The implications are detailed in the report. The strategy continues to identify reduced funding levels from government for the next few years and the prudent use of reserves over each of the next three years to help the transition to a lower spending Council. It is proposed that a further review of reserves be included within the budget setting process.

34. The MTFS identifies budget shortfalls in each of the next 3 years, even after the use of significant levels of reserves. The identification of further efficiencies, income generation opportunities and cost reductions remains of critical importance to achieve a balanced budget.

35. The MTFS supports the alignment of corporate priorities with available resources and is intended to set the annual budget process in the context of the requirement for financial planning for the medium term.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

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Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

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Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	No
Local People's Views	No
Anti-Poverty	Yes

Background Information

Appendix A – Medium Term Financial Strategy

Officer to Contact

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