

**Agenda Item No: 9**

**Report to: Cabinet**

**Date of Meeting: 2 November 2015**

**Report Title: Medium Term Financial Strategy and 2015/16 Mid-Year Financial Review**

**Report By: Peter Grace**  
Head of Finance

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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 2015 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 (2016/17 to 2018/19) in order that key priorities can be matched to expected funding.

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### **Recommendation(s)**

**1. Approve the Medium Term Financial Strategy.**

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### **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.

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## Introduction

1. The review of the current year's spending against the budget helps to update and inform the budget process for 2016/17 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 government's autumn statement on 25 November 2015 is expected to provide details of the resources available to local government over the next 4 years. The local government settlement is expected to be released in early December and will provide details of the 2016/17 settlement and hopefully indicative figures for 2017/18. The Council experienced grant funding reductions of over 50% since the last Comprehensive Spending review and may well receive further cuts in excess of 40% over the next 4 years.
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 12% in each of the next 4 years.

## Financial Context

5. The council's 2015/16 net budget of £15.615m is broken down across services as follows:-

Service	Net Budget £
Corporate Resources	2,926,000
Environmental Services	7,816,000
Regeneration	4,691,000
Interest/ Use of Reserves/ Other Grants and Contingency	182,000
Total (Net Council Expenditure)	15,615,000

6. The budget is funded by:-

Funded From	£
Revenue Support Grant	3,657,000
New Homes Bonus – return funding	11,000
New Homes Bonus	1,006,000
Collection Fund Surplus – Council Tax	250,000
Collection Fund Deficit - NNDR	(816,000)
Disabled Facility Grant	666,000
Housing Benefit Administration Grant	800,000
Efficiency Support Grant	102,000
Business Rates	3,022,000
Business Rates (Section 31 Grant)	478,000
Business Rates Pooling	80,000
Council Tax	5,835,000
Reserves	522,000
Total (Net Council Expenditure)	15,615,000

## 2015/16 - Mid year Review

7. There are a number of “overs and unders” within the accounts that help inform budget planning for 2016/17 and beyond.

### Income (2015/16)

8. Development Control income is being estimated by the service to be down by some £50,000 against that budgeted (£270,000). Last year however there was a significant surge in the income in the last quarter of the year which resulted in the budget being significantly exceeded.
9. Property – income is currently higher than original budget estimates (some £79,000 estimated by year end), mainly as a result of lower voids and success at attracting new tenants to the revamped business centres. Some additional costs have however been incurred in preparing assets for disposal.
10. Investment income is around budget. There have been lower borrowing costs than envisaged to date as a result of timing differences on the grant to Amicus Horizon in respect of the Coastal Space initiative.
11. Efficiency Support Grant in the sum of £102,000 has been received in line with the budget estimates.
12. 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 £18m out of a total valuation list of £57m) as the Valuation Office is also undertaking the 2017 revaluation

## **Expenditure (2015/16)**

### **Inflation**

13. The council allowed 1.2% for inflation on its main contracts in 2015/16. With some £6m of major outsourced contracts inflation assumptions remain important for budget planning purposes. Inflation in September 2015 (CPI -0.1%, RPI 0.8%) is below the government's 2% target level and is the lowest since July 2009. It looks set to return near to the government's target within two years. This lower than expected increase is estimated to save the Council some £45,000 in 2016/17.

### **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.
15. Corporate Resources are forecasting underspends against the original budget. This includes some £75,000 in respect of legal costs in respect of the Pier claim. The hearing now being set in 2016/17 – a timing issue. The level of redundancy costs falling in 2016/17 is expected to be much lower and there is unlikely to be a call on reserves this year as a result.
16. 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.
17. The high level of business rating appeals currently going through will impact on the Collection Fund in 2016/17 if the costs are higher than those provided for.
18. Council Tax Support Scheme – lower levels of claims continue to be experienced in 2015/16, which results in higher levels of council tax being collected. The caseload is currently 11,056 and represents a decrease of 3.2% from 31 March 2015. Housing Benefit caseload also continues to decrease, now standing at 10,319 – a decrease of 3.9% from 31 March 2015 (the cost of the claims being funded by government in this instance).
19. The Social lettings scheme is taking off more slowly than anticipated and will not achieve a breakeven point in the originally projected timescale – leading to a deficit in 2015/16.

### **Capital Expenditure**

20. The costs of construction and professional fees have been increasing significantly in the South East over the last year as the economy grows again. The Council is

experiencing this on a number of contracts both in terms of the numbers of suppliers submitting tenders and also in terms of cost. As a result there may well be revisions to the Capital programme as part of the revised budget process or through separate reports to Cabinet.

## **2015/16 - Summary of Mid Year position**

21. 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.
22. 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, PIER saving targets were set as part of the budget setting process in February 2015 and these will need to be achieved.
23. The major areas of uncertainty include the business Rate appeals, social lettings agency, 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 July 2016.
24. The revised budget for 2015/16 is currently being prepared and there will be overs and unders across the whole budget. I am currently expecting that there will be a saving against the existing budget as a result of all the savings made e.g. management restructure and hence the call on the Transition Reserve may be less than originally expected.

## **Medium Term Financial Strategy**

25. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the 3 year period 2016/17 – 2018/19 and these have been produced to reflect the issues raised as part of the review of the MTFS. 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 24 February 2016.
26. Members are recommended to approve the Strategy, which will inform the 2016/17 budget setting process.

## **Anti Poverty, Equalities and Community Cohesiveness**

27. 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

28. The key risks are identified in the MTFS other than in respect of the claim against the Council in respect of the Pier - which is subject to a Supreme Court hearing in 2016/17.

## Economic/Financial Implications

29. 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. It is proposed that a further review of reserves be included within the budget setting process once the 2016/17 settlement is received and whether this is accompanied by indicative funding levels for the years ahead.

30. 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.

31. 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.

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## 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

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## Background Information

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**Officer to Contact**

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