

Agenda Item No: 5

Report to: Cabinet

Date of Meeting: 3 November 2014

Report Title: Medium Term Financial Strategy and 2014/15 Mid Year Financial Review

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

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 2014 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 (2015/16 to 2017/18) in order that key priorities can be matched to expected funding.

Recommendation(s)

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 2015/16 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 Comprehensive Spending review 2010 gave detailed funding assumptions for two of the four years that the spending review covered. From 2010/11 to 2015/16 grant funding from the government will have reduced by some 51% in cash terms on a like for like basis.
4. For financial planning purposes, additional reductions in the annual grant settlements from 2015/16 onwards have been assumed in the Medium Term Financial Strategy (MTFS). The assumption in this strategy is for reductions in Settlement Funding Assessments (government funding and retained business rates) of some 15.3% in 2015/16 and reductions of some 10% in 2016/17 and also in 2017/18.

Financial Context

5. The council's 2014/15 net budget of £17.291m is broken down across services as follows:-

Service	Net Budget £
Corporate Resources	3,022,270
Environmental Services	7,935,160
Regeneration	5,431,300
Interest/ Use of Reserves/ Other Grants/Contingency	902,844
Total (Net Council Expenditure)	17,291,574

6. The budget is funded by:-

Funded From	£
Revenue Support Grant	3,885,836
Council Tax Freeze Grant(14/15)	70,123
New Homes Bonus	886,315
Collection Fund Surplus	37,280
Disabled Facility Grant	666,004
Housing Benefit Administration Grant	986,292
Efficiency Support Grant	974,522
Business Rates	3,150,558
Business Rates (Section 31 Grant)	467,200
Council Tax	5,597,433
Reserves	570,011
Total (Net Council Expenditure)	17,291,574

2014/15 - Mid year Review

7. There are a number of “overs and unders” within the accounts that help inform budget planning for 2015/16 and beyond.

Income (2014/15)

8. Development Control income is down on 2013/14 levels, albeit that the number of applications remains close to that of the previous year; there are fewer larger applications.
9. Property – income is currently higher than original budget estimates (some £75,000), although it is known that three factory units will be returned to the council in March 2015. Some additional costs have been incurred in preparing assets for disposal.
10. Investment income is on budget. There have been lower borrowing costs than envisaged as a result of timing differences on the loan to Amicus Horizon in respect of the Coastal Space initiative, as well as lesser amounts being borrowed.
11. Efficiency Support Grant in the sum of £975,000 has been received, following the successful achievement of the business plan.
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 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.

Expenditure (2014/15)

Salaries

13. A pay award of 1% was allowed for in the budget. Contractual increments also increase the annual salary costs by around ½% p.a., which was also allowed for in the budget (a 1% increase is equivalent to some £130,000 p.a.). A pay offer of 2.2% (plus lump sum payments for some staff) has been made which if accepted would commence in January 2015 and apply until 31 March 2016 i.e. a two year offer.

Inflation

14. The council allowed 2.5% for inflation in 2014/15. With some £5.6m of major outsourced contracts inflation assumptions remain important for budget planning purposes. Inflation in September 2014 (CPI 1.2%, RPI 2.3%) is below the government's 2% target level and is the lowest since July 2009. It looks set to be at or near the government's target for the near term.

Additional Expenditure

15. The major areas of uncertainty are the business Rate appeals and also the outstanding claim in respect of the pier closure (Manolete claim) which is subject to arbitration. There is also additional expenditure on a number of repair and renewal initiatives and in respect of bathing water quality initiatives. The position as at 30 September 2014 is detailed below.
16. Environmental Services are reporting an anticipated underspend of some £338,000 for the year. Some £113,000 of this relates to the timing of expenditure e.g. expenditure supported by S106 monies and joint waste agreement spending in respect of IT – both funded from reserves, rather than a real reduction in ongoing expenditure or a real increase in ongoing income. The figure also includes one off savings.
17. Regeneration are forecasting an overspend of £43,000. The main reason for this variance is due to the reduction in Development Control income (planning fees). There is also expected to be slippage on the Planning Policy budget in respect of the adoption of the local plan - which is outside of the council's control. Cultural Development (Getting Hastings Ready) is forecasting slippage due to a delay in the appointment of the manager role. These sums will be reprofiled into future years as part of the budget process.
18. Corporate Resources are forecasting underspends against the original budget of some £329,000. This includes new burdens funding (£101,000 in 2014/15) in respect of welfare reforms that is transferred from reserves but is not anticipated to be required in 2014/15 – this will be reprofiled as part of the budget process. The level of occupancy in Industrial units and shops owned by the council is higher than anticipated resulting in additional income – forecast between £75,000 and £95,000 for 2014/15. There is currently an underspend on the Revenue Services budget,

although additional IT expenditure is anticipated. The savings are partially offset by an anticipated increase in legal costs in respect of defending legal claims previously reported.

19. The high level of business rating appeals currently going through will impact on the Collection Fund in 2014/15. It should be noted that the resulting deficit that is now anticipated will be a cost against the 2015/16 budget.

2014/15 - Summary of Mid Year position

20. In brief, there are 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.
21. 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. Service review reductions will feed through into the revised budget for 2014/15 and the 2015/16 budget.

Medium Term Financial Strategy

22. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the 3 year period 2015/16 – 2017/18 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 25 February 2015.
23. Members are recommended to approve the Strategy, which will inform the 2015/16 budget setting process.

Equalities and Community Cohesiveness

24. The equalities implications of the annual budget proposals are the subject of an Equalities Impact Assessment.

Risk Management

25. 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 arbitration.

Economic/Financial Implications

26. 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 indicative 2016/17 settlement is received and it is known whether the New Homes Bonus funding will remain in place.

27. 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.
28. 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

Area(s) Affected

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

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

Background Information

Appendix A – Medium Term Financial Strategy

Officer to Contact

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