

Agenda Item No:

Report to: Cabinet

Date of Meeting: 6 November 2017

Report Title: Medium Term Financial Strategy and 2017/18 Mid-Year Financial Review

Report By: Peter Grace
Chief Finance Officer

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 2017 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 4 years (2018/19 to 2021/22) 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 2018/19 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 budget on 22 November 2017, and the detail that follows thereafter, is expected to provide more details of the resources available over the next 3 years. This may impact on the remaining income streams, such as New Homes Bonus and Discretionary Housing Payments. The local government settlement is expected to be released in December and will provide confirmation of the 2018/19 settlement and adjustments thereof. The 4 year settlement provides for the Revenue Support Grant to reduce from £2.038m in 2017/18 to £1.542m in 2018/19 and £988,000 in 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 2018/19, 7% in 2019/20 and 8.4% in 2020/21. The years thereafter assume continued grant reductions of similar amounts.

Financial Context

5. The council's 2017/18 net budget of £16.58m is broken down across services as follows:-

Service	Net Budget £
Corporate Resources	2,693,000
Operational Services	11,802,000
Interest/ Use of Reserves/ Other Grants and Contingency	(241,000)
Total (Net Council Expenditure)	14,254,000

6. The budget is funded by:-

Funded From	£
Revenue Support Grant	2,038,000
New Homes Bonus – return funding	9,000
New Homes Bonus	1,009,000
Collection Fund Surplus – Council Tax	232,000
Collection Fund Deficit - NNDR	(237,000)
Housing Benefit Administration Grant	461,000
C.Tax Support Admin Grant	179,000
Transition Grant	5,000
Business Rates	2,997,000
Business Rates (Section 31 Grant)	724,000
Business Rates Pooling	0
Council Tax	6,282,000
Reserves/Capitalisation	555,000
Total (Net Council Expenditure)	14,254,000

2017/18 -

Mid year Review

7. There are a number of “overs and unders” within the accounts that help inform budget planning for 2018/19 and beyond.

Income (2017/18)

8. Property – income is currently higher than original budget estimates as a result of property purchases e.g. Bexhill Road retail park, where the full year income receivable amounts to some £543,000.

9. Investment income is higher than the original budget following the decision to invest in the Property Management Fund (CCLA). The Council investing some £2m in April 2017.

10. 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 as in previous years 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. Given government changes to the scheme, the Council is no longer having to collect relatively small sums from a number of businesses and is instead reimbursed by the government for the income foregone.

11. A relatively good summer and mild autumn to date has resulted in parking income being more buoyant than projected. Off-Street Parking income is forecast to be higher than budgeted (£100,000+), however much of this relates to the Foreshore Trust car parks.

Expenditure (2017/18)

Inflation

12. The Council allowed around 2% overall for inflation on its main contracts in 2017/18. With some £5m of major outsourced contracts, inflation assumptions remain important for budget planning purposes. Inflation in August 2017 (CPI 2.9%, RPI 3.9%) is above the government's 2% target level (CPI). Initial estimates indicate that there will be additional costs in 2017/18 of between £30k and £50k on inflation assumptions.

Other Expenditure

13. The high level of business rate appeals remains. Appeals against the 2017 list are not yet coming through. Provision has been made in the Collection Fund in 2017/18 to account for the high cost of appeals (some £2.8m). However, there has been a number of withdrawals of appeals by surgeries, and the level of provisions held by the Council will be reviewed in the light of this when setting the 2018/19 budget.
14. Council Tax Support Scheme – lower levels of claims continue to be experienced in 2017/18, which results in higher levels of council tax being collected. The caseload is currently 10,193 and represents a decrease of 4.7% from September 2016. Housing Benefit caseload also continues to decrease, now standing at 8,180 – a decrease of 17.6% from September 2016 (the cost of the claims being funded by government in this instance).
15. Since determining the budget in February 2017, the Council's budget has been enhanced by the receipt of a number of grants and additional funding sources, all of which will be matched with expenditure and are not therefore expected to reduce the in-year deficit. Additional funding includes:
- Flexible Homelessness Support Grant - £451,597 (2017/18) & £519,586 (2018/19)
 - Community Housing Funding - £244,098
 - Clinical Commissioning Group Monies – Total expenditure some £1.711m in period 2017/18 to 2019/20
 - Discretionary Housing Payments £412,154 (2017/18)

Of the above, some £940,000 is expected to be additional spend in 2017/18 and will be included within the revised budget.

Capital Expenditure

16. 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, and the Castle. The overall spend will exceed the original budget estimates following the purchase of Bexhill Road Retail Park, the establishment of the housing company, and approval for York Buildings and the Capital contribution to Priory Meadow in respect of the Council's share of capital investment over the next three years (£250,000). Additional land and property acquisitions in the year have also been approved by the Council.

2017/18 - Summary of Mid Year position

17. 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.
18. There are few illusions about the level of budget reductions required to achieve a sustainable budget in the years ahead. As a result services should 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 2017/18 and beyond, PIER saving targets were set as part of the budget setting process in February 2017 and these will need to be achieved. The achievement or otherwise of these will be reported to Cabinet in July 2018.
19. The major areas of uncertainty include the business rate appeals (including the potential NHS claim), licensing, development control income and also the outstanding claim in respect of the Pier closure (Manolete claim) – the result of the arbitration at the time of writing is still awaited.
20. The revised budget for 2017/18 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 Bexhill Retail Park. If so, the call on the Transition Reserve may be less than originally projected. Against this is the potential costs arising from the major areas of uncertainty.

Medium Term Financial Strategy

21. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the five years (current year plus future 4 year period 2018/19 – 2021/22) and these have been produced to reflect the issues identified in the MTFS.
22. The deficits amount to £728,000 in 2018/19, £972,000 in 2019/20, £2.03m in 2020/21 and £2.5m in 2021/22. Work is currently ongoing to reduce these deficits. Income generation is playing a significant 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. The MTFS includes the projections for income generation agreed by the Cabinet at its meeting on 11 September 2017. These projections will be revisited when setting the 2018/19 budget.

23. The financial projections in the Strategy 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 21 February 2018.
24. Members are recommended to approve the Strategy, which will inform the 2018/19 budget setting process.

Anti Poverty, Equalities and Community Cohesiveness

25. 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

26. 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

27. 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 four 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.
28. The MTFS identifies budget shortfalls in each of the next 4 years, even after the use of significant levels of reserves and income generation initiatives. The identification of further efficiencies, further income generation opportunities and cost reductions remains of critical importance to achieve a balanced budget.
29. 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
Anti-Poverty	Yes

Background Information

Appendix A – Medium Term Financial Strategy

Officer to Contact

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