

Agenda Item No:

Report to: Cabinet

Date of Meeting: 3 September 2018

Report Title: Medium Term Financial Strategy

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.

The Medium Term Financial Strategy seeks to identify the financial risks that will affect the annual budgets for each of the next 4 years (2019/20 to 2022/23) in order that key priorities can be matched to expected funding.

Recommendations

- 1. Approve the Medium Term Financial Strategy.**
- 2. The Council take the robust actions necessary in this financial year and throughout the 2019/20 and 2020/21 budget processes to achieve a sustainable budget.**

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 2019/20 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 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 is expected in November 2018, and the detail that follows thereafter, is expected to provide more details of the resources available over the next year. The government's spending Review (SR19) is expected to be undertaken in 2019 (potentially reporting in May/June 2019) which may help inform the Council on the total size of the pot that will be made available for Local government as against the other spending priorities of the government.
4. In readiness for 2020/21 the results of the Fair Funding Review and retention 75% of business rates should be announced by December 2020. This may well impact on the remaining income streams, such as New Homes Bonus and Discretionary Housing Payments.
5. The local government settlement for 2019/20 is expected to be released in December 2018 and will provide confirmation of the 2019/20 settlement (as per 4 year settlement) and details of the New Homes Bonus payments – should the Council achieve the required threshold.
6. The 4 year settlement provides for the Revenue Support Grant to reduce from £1.542m in 2018/19 to £988,000 in 2019/20 (a reduction of £554,000).
7. 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, 7% in 2019/20 and 8.4% in 2020/21. The years thereafter assume continued grant/funding levels of similar amounts, but this may well be overly optimistic.

Financial Context

8. The Net Council Expenditure budget for 2018/19 is £14.413m and is broken down across services as follows:-

Service	Net Budget £
Corporate Resources	1,245,000
Operational Services	11,056,000
Interest/ Use of Reserves/ Other Grants and Contingency	2,112,000
Total Net Council Expenditure	14,413,000

9. The budget is funded by:-

Funded From	£
Revenue Support Grant	1,542,000
New Homes Bonus – return funding	9,000
New Homes Bonus	649,000
Collection Fund Surplus – Council Tax	126,000
Collection Fund Deficit - NNDR	(63,000)
Housing Benefit Administration Grant	421,000
C.Tax Support Admin Grant	167,000
Business Rates	2,757,000
Business Rates (Section 31 Grant)	1,114,000
Business Rates Pooling	57,000
Council Tax	6,595,000
Reserves/Capitalisation (net)	1,039,000
Total Funding	14,413,000

2018/19 Review

10. There were a number of “overs and unders” within the 2017/18 accounts that when compared to the 2018/19 budget will help inform budget planning for 2019/20 and beyond. The Accountants and service managers will be reviewing the underspends and overspends very carefully.
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 outstanding both nationally and locally continues to be a threat 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 reduces the income that the Council has to collect from businesses. This further complicates the funding 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. This figure now amounts to some £1.114m in 2018/19.

Expenditure (2018/19)

Inflation

12. The Council allowed around 2% overall for inflation on its main contracts in 2018/19. With some £5m of major outsourced contracts, inflation assumptions remain important for budget planning purposes. Inflation in July 2018 (CPI 2.5%, RPI 3.2%) is above the government's 2% target level (CPI). Initial estimates indicate that there will be additional costs in 2018/19. Gas and electricity prices are forecast to rise significantly in 2019/20 – between 12% and 20%.

Other Expenditure

13. Council Tax Support Scheme – lower levels of claims continue to be experienced in 2018/19, which results in higher levels of council tax being collected.
14. Since determining the budget in February 2018, 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:
 - Coastal Communities Fund (Round4) - £317,000 (2018/19)
 - Disabled Facility Grant - £1,679,781

The above sums will be included within the revised budget.

Capital Expenditure

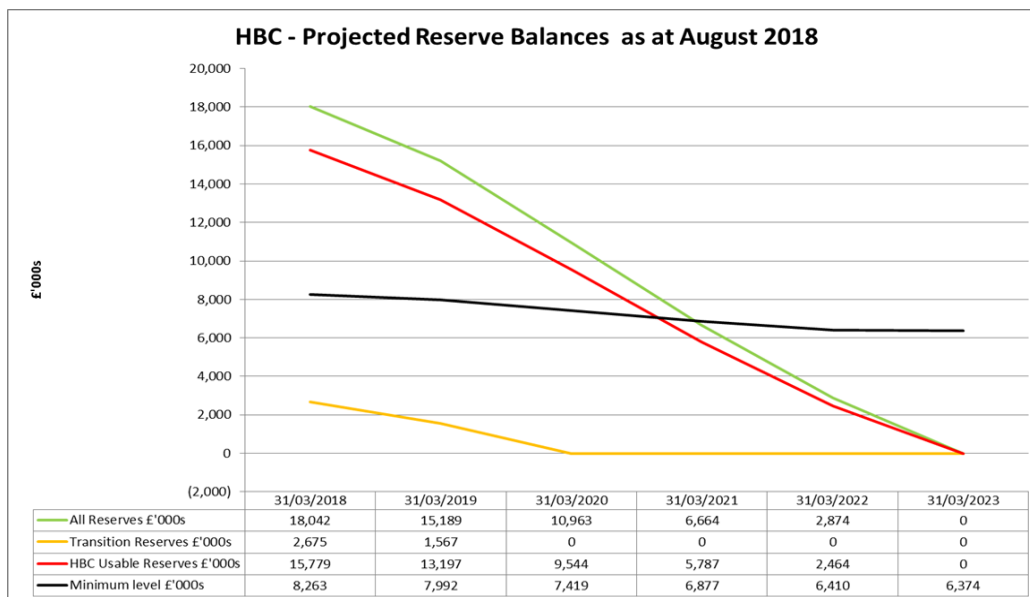
15. The Council is planning to spend £32,938,000 on capital projects during 2018-19. Of this £27,160,000 is due to be funded from borrowing, £4,247,000 by grants and contributions, £1,255,000 from capital receipts and £276,000 from reserves.

2018/19 - Summary of Mid Year position

16. 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.
17. 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 2018/19 and beyond, PIER saving targets were set as part of the budget setting process in February 2018 and these will need to be achieved. The achievement or otherwise of these will be reported to Cabinet in July 2019.
18. The major areas of uncertainty include the business rate appeals (including the potential NHS claim for charitable relief), licensing, development control income.

Medium Term Financial Strategy

19. 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 2019/20 – 2022/23) and these have been produced to reflect the issues identified in the MTFS.
20. The deficits amount to £1,108,000 in 2018/19, £2,087,000 in 2019/20, £2.9m in 2020/21, £3.2m in 2021/22 and £3.3m in 2022/23. Work is currently ongoing to identify ways 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 revised projections for income generation. These projections will be revisited yet again when setting the 2019/20 budget.
21. 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 20 February 2019.
22. 2017/18 saw the first use of the Council's Transition reserves to fund the budget deficit. The graph below highlights, on current projections, how the Transition Reserves will fund the deficit for 2018/19 and only part of the 2019/20 deficit. On the current projections, and if the Council took no steps whatsoever to address the deficit, reserves would meet minimum levels during the 2020/21 year, with serious consequences.



23. Members are recommended to approve the Strategy, which identifies the deficits that need to be fully addressed in the 2019/20 and 2020/21 budget setting processes as the reserves set aside for the transition to a lower spending Council are otherwise exhausted part way through 2019/20.

Anti Poverty, Equalities and Community Cohesiveness

24. 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

25. 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

26. The strategy continues to identify reduced funding levels from government for the next few years, that new income streams are being reprofiled and that there are additional cost pressures in terms of waste and Street Cleaning contracts. Robust steps must be taken now to ensure a sustainable budget is set by the Council.
27. The MTFS identifies major budget shortfalls in each of the next 4 years, even after the use of significant levels of reserves and income generation initiatives. The Transition, Economic Development and Community Safety reserves would, even if used in full, be insufficient to finance the 2019/20 budget deficit unless significant savings/new income streams are identified
28. The identification of further efficiencies, further income generation opportunities and cost reductions remains of critical importance to achieve a balanced budget and must be seen as a top Council priority. It is proposed that a further review of reserves be included within the budget setting process.
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

Peter Grace
pgrace@hastings.gov.uk