

Agenda Item No:

Report to: Cabinet

Date of Meeting: 5 October 2020

Report Title: Medium Term Financial Strategy

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 Medium Term Financial Strategy (MTFS) seeks to identify the financial risks that will affect the annual budgets for each of the next 3 years, and the anticipated resources that will be available to the Council.

Recommendations

- 1. Approve the Medium Term Financial Strategy.**
- 2. The Council continues to take the robust actions necessary in this financial year and throughout the 2021/22 budget process to achieve a sustainable budget.**

Reasons for Recommendations

The council matches its available resources to its priorities across the medium term. The Council needs to achieve estimated savings of some £2.7m in order to achieve a sustainable budget in 2021-22. In arriving at this figure many assumptions have had to be made on future funding and particularly on the impacts of Covid-19. The estimate will continue to be updated as and when implications become clearer and once the government announces details of future funding.

The report provides the opportunity to assess the council's resources to assist the review of corporate priorities. The Council must be prepared for continued ongoing reductions in funding, greater volatility in its income streams, economic uncertainty and the need to continually ensure limited resources are properly aligned to targets.

The Council has a statutory duty to set a balanced revenue budget each year and this strategy seeks to highlight the major issues (in advance) in order to do so.

Introduction

1. The Medium Term Financial Strategy seeks to provide projections to help inform the Corporate Plan and budget setting processes.
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 many key areas of financial uncertainty which cause problems when seeking to accurately forecast available resources for the years ahead.
3. The Medium Term Financial Strategy seeks to identify these uncertainties e.g. government spending review, fair funding review, replacement for New Homes Bonus, charitable status for NHS hospitals, etc. Where possible the MTFS seeks to make an informed view of the likely resource implications. Where there is no clarity as yet, generally, a prudent approach is adopted.
4. The Chancellor has announced that the Spending Review (SR20) due originally to report in July 2019 is still to take place and the results are expected to be announced in the late autumn of 2020.
5. The government's autumn budget that was to be in November 2020 but has now been postponed until the spring. Whilst the government's Spending Review (SR20) may cover more than one year, the funding settlement for local authorities may just cover 2021/22.
6. The funding announcements that normally follow the budget would be expected to provide the real details of the resources available to Councils over the 2021/22 financial year. The announcement date remains unknown as yet.
7. Fundamental changes to local government funding were still due for 2021/22. However, the Fair Funding Review has been postponed yet again as has the retention of 75% of business rates - it is unknown whether these changes will now ever proceed given the governments review of business rates. The impact on other income streams, such as New Homes Bonus and Discretionary Housing Payments also remains unknown.
8. For financial planning purposes, the assumption in this Medium Term Financial Strategy is for no overall reduction in Settlement Funding Assessments (government funding and retained business rates) for 2021/22 i.e. a standstill settlement. The years thereafter assume continued funding levels (business rates) of similar amounts and increasing annually by inflation (assumed at 2% for 2021/22), but this may well be overly optimistic given the state of the country's finances.

Financial Context

9. The Net Council Expenditure budget for 2020/21 is £14.245m and is broken down as follows (full details in the budget book/ website): -

Service	Net Budget £
Corporate Resources	376,000
Operational Services	11,624,000
Interest/ Use of Reserves/ Other Grants and Contingency	2,245,000
Total Net Council Expenditure	14,245,000

10. The budget is funded by: -

Funded From	£
Revenue Support Grant	1,004,000
New Homes Bonus	199,000
Collection Fund Surplus – Council Tax	50,000
Collection Fund (Deficit) - NNDR	(188,000)
Housing Benefit Administration Grant	398,000
C.Tax Support Admin Grant	158,000
Business Rates	2,771,000
Business Rates (Section 31 Grant)	1,564,000
Business Rates Pooling	12,000
Council Tax	7,094,000
Reserves/Capitalisation (net)	1,182,000
Total Funding	14,245,000

2020/21 Review

11. The review of the current year's spending against the budget helps to update and inform the budget process for 2021/22 and beyond. There were a number of "overs and unders" within the 2019/20 accounts that when compared to the 2020/21 budget will help inform budget planning for 2021/22 and beyond. This review has not yet been undertaken.

Covid-19 Impact

12. The financial modelling undertaken to date identified net additional costs/loss of income at some £4.9m for 2020/21. Whilst some of the costs/loss of income will cause a deficit on accounts this year, they do not all appear in the Council's accounts until the following financial year due to accounting conventions e.g. collection fund costs. The government have also provided additional funding that offsets the deficits.

13. The government have allocated £3.7bn of funding to help local government to meet the additional costs faced by covid-19. This was allocated in three tranches, with the total funding to Hastings BC amounting to £1,208,695.
14. In addition to the direct funding the government have announced an Income Compensation scheme which compensates local authorities, in part, for reduced income from Sales, Fees and Charges (SFC) e.g. reduced car parking monies. The payment is based on 75p in the £, after a 5% overall reduction. This money will be received in three tranches based on information the Council submits. The calculations are net of any monies that the Council may have saved e.g. by furloughing staff, using staff elsewhere, reduced utility bills, etc. there are numerous exclusions e.g. property rental income, investment interest, delays in receiving sale proceeds.
15. The additional costs arising from Covid-19 that fall in the 2020/21 year are estimated at some £1.528m, with loss of income estimated at some £2.365m, The additional costs/loss of income are offset by the direct government funding of £1.208m (already received) and an estimated £803,000 that will be recovered from the government's new lost income compensation scheme. In addition, the Council has received monies for administering the government business grant schemes and additional monies for rough sleepers. The table below shows the revised projected budget shortfall for 2020/21 at £2.706m.

Revenue Budget Forward Plan	2020-21	2020-21
Projection at 27 August	Budget	Projection @ 27.8.20
	£000's	£000's
Net Council Expenditure	14,245	15,757
Funding	(13,063)	(13,051)
Shortfall	1,182	2,706
Use of Reserves	1,182	
Estimated Shortfall	0	2,706

16. The projections for future years are difficult to estimate at present and are very dependent upon the level of government funding that may be forthcoming and the continuing impacts of Covid-19 on the current year's budget as well as those for future years.
17. Covid-19 is impacting on Business Rates and Council Tax, Collection rates for business rates are currently some 9.8% down on this time last year, whilst those for Council Tax are down 1.3%. However, Covid-19 is expected to impact heavily on the Council Tax Support scheme in the remaining part of the year as unemployment rises and more people become eligible to claim benefits – this will result in less Council Tax being collectable.
18. Business rate income was already an area of high volatility and risk. Whilst the percentage of business rates collected is lower than last year this is based on a

lower level of collectible debt – given the governments rate free holidays for this financial year for many businesses.

19. The Council receives a separate payment from the government following the extension to the Small Business Rate Relief Scheme and introduction of the rate free holidays for some businesses – 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.

Other Expenditure

20. Since determining the budget in February 2020, the Council's budget has been enhanced by the receipt of the funding for Disabled Facility Grants. This was advised in May 2020 and amounts to £1,812,584 (same as 2019/20). This sum will be included within the revised budget.
21. The 2020/21 local election for Hastings BC was postponed until 2021/22 - a saving for the current financial year but increased costs for next.

Capital Expenditure

22. The Council's budget included spending of £26.1m on capital projects during 2020-21. Of this some £16.5m would be funded from borrowing with the remainder funded from grants, contributions, and from capital receipts. The actual expenditure that will be incurred is expected to be significantly less – given the Covid-19 impact.

2020/2021 - Summary

23. After ten years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required without impacting on services. Services should continue to identify opportunities to make in-year savings and investigate other ways of achieving corporate objectives when staff leave the organisation.
24. Covid-19 has involved many of the Council's staff working on different and competing priorities over the last few months and there may well be opportunities to work differently in the future – and potentially to identify some savings in doing so. However, besides Covid-19 and the potential for further lockdowns, there remain issues which can cause financial uncertainty within 2020/21 and beyond. These include for example the business rate appeals (including the potential NHS claim for charitable relief), licensing, development control income, car parking income, commercial property income, economic climate and any change in employment levels, benefit costs, and temporary accommodation costs.

Medium Term Financial Strategy

25. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the next 3 years (current year plus future 3

year period 2021/22 – 2023/24). 10 year projections have not been produced this year due to the uncertainty on future funding.

26. There are significant areas of budget growth in 2020/21 and 2021/22, largely resulting from the Covid-19 crisis e.g. business rates, homelessness, rough sleeping, Council Tax support costs and there remains considerable uncertainty about the forecasts given the unknown impacts of a possible spike in cases and further lockdown, plus the depth and length of any recession.
27. Deficits on the collection fund in respect of business rates and Council Tax are expected to be significant as a result of lower payment levels, deferrals, court closures, suspension of recovery action, etc. The government are allowing for deficits to be spread over a 3 year period.
28. The ability to forecast the available resources in future years is very difficult, given the governments deferment of the Fair Funding Review, business rates revaluation and the delay in introducing the changes for retaining greater shares in any business rate growth. The future estimates of wage settlements, inflation, investment and borrowing costs are likewise difficult to predict with any great certainty.
29. The projections for future years are summarised below:

	2020-21	2020-21	2021-22	2022-23	2023-24
Projection at 28 August	Budget	Projection	Projection	Projection	Projection
	£000's	£000's	£000's	£000's	£000's
Net Council Expenditure	14,245	15,757	15,210	15,225	15,409
Funding	(13,063)	(13,051)	(12,898)	(12,989)	(13,229)
Shortfall	1,182	2,706	2,311	2,236	2,180
Use of Reserves	1,182		-	-	-
Estimated Shortfall	0	2,706	2,311	2,236	2,180

30. Work is ongoing to identify options for reducing these deficits further and presenting options for Council to consider when determining the budget in February 2020.
31. 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 in February 2021.

Reserves

32. The minimum level of unallocated reserves is set at £6m and given the economic and funding uncertainties, exposures of income streams, volatility of Council Tax support costs these would have been increased further in normal circumstances. However, the Council has not been operating under normal circumstances for

some years – having to make difficult choices in the light of funding reductions in each of the last 10 years.

33. It is estimated that the Council's General Reserve will be in the region of £7.3m as at the 31 March 2020. At the time of writing the 2019/20 accounts remain in draft form and are under review. The increased deficit for 2020/21 could result in the General Reserve being reduced to some £5m by 31 March 2021 if no additional savings are identified this year – below the minimum recommended level of £6m.
34. Members are recommended to approve the Strategy, which identifies the deficits that need to be fully addressed in the 2021/22 budget setting process. The reserves set aside for unexpected and unforeseen events have been adequate to date for the additional expenditure incurred and the reductions in income experienced. Given the level of reserves and the approved Treasury management policy the Council has not experienced difficulties to date in managing its substantial cash flows.

Budget and Resilience (Financial Stress)

35. As first reported when determining the 2019/20 budget in February 2019, Cipfa indicators highlighted that the Council's reserves are being depleted faster than at other Councils and that there is a **very low level of unallocated reserves**, plus that earmarked reserves are being used more rapidly. The analysis identified that grants and Council Tax form a significant element of the Council's net budget and as external funding diminishes this poses a greater risk to the Council's sustainability.
36. The implications of having inadequate reserves in the future severely jeopardises the ability to meet unexpected costs, claims, shortfalls in income and particularly fund the capital programme and new regeneration opportunities.
37. When reserves meet minimal levels and if there are no viable plans to reduce the deficits, it might be expected in normal times that the external auditors would issue a report under section 24 of the Local Audit and Accountability Act. This notice requires Councils to meet within a month, to consider any report issued, and start taking the difficult decisions required. A section 114 notice may follow shortly thereafter from the Chief Finance Officer.
38. This Council has managed its resources effectively and has maintained adequate levels of reserves in order to meet unexpected events such as the pandemic – albeit with the assistance of additional government funding. The ability to restore reserves back to minimum recommended levels will be extremely difficult given the expected demand pressures and potential ongoing reductions in funding. It may be that the Council will be operating with reserves below minimum recommended levels in 2021/22 – given that there will be insufficient time to make substantial savings should the funding announcements in the autumn prove to be inadequate.

Anti-Poverty, Equalities and Community Cohesiveness

39. 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

40. The key risks are identified in the MTFs. The key areas remain future funding, covid-19 and impact of any recession on income and expenditure, business rate appeals, and the Council Tax support scheme.

Economic/Financial Implications

41. The strategy is based on continuing to receive funding from government at the same levels as 2020/21 for the next three years. Income streams are being reprofiled but remain at significant risk. There are additional cost pressures in terms of the Council Tax Support scheme, volatility on business rates, falling investment income, wage settlements. In a few years the Council may also lose a significant element of the income stream from land charges.
42. The MTFs identifies major budget shortfalls in all future years, even after the use of reserves. 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.
43. 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.
44. Steps must again be taken through the budget process to identify further potential savings to help ensure a sustainable budget can be set by the Council for 2021/22.

Climate Change

45. The Council has a key role to play in addressing climate change and any reductions in resources may impact adversely on its ability to achieve all existing corporate plan objectives without further prioritisation.

Wards Affected - All

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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