

Agenda Item No:

Report to: Cabinet

Date of Meeting: 19 November 2021

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.

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.

Given that this MTFS identifies that reserves are set to fall below minimum recommended levels mainly as a result of spiralling homelessness costs and other expenditure pressures, this report identifies further in-year savings that can be made, prior to determining the budget in February 2022.

Recommendations

- 1. Approve the Medium Term Financial Strategy.**
- 2. The Council take the robust actions necessary in this financial year and throughout the 2022/23 budget process to achieve a sustainable budget and maintain the minimum recommended level of unallocated reserves.**
- 3. Service costs are reduced in this financial year to contain costs as detailed in Table 1 of this report, and that further savings be made where practicable.**
- 4. Full Council to note the action taken and that there is potentially a greater call on Reserves in 2021/22.**

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 £3.1m in order to achieve a sustainable budget in 2022-23. In arriving at this figure many assumptions have once again had to be made on future funding, spiralling costs of homelessness, and also the ongoing impacts of Covid-19 on income streams. The estimates will continue to be

updated as and when the government announces details of future funding and demand and inflationary impacts are updated.

The report provides the opportunity to assess the council's resources to assist the review of corporate priorities. Given the additional spending pressures in 2021-22 and an increase in the deficit of some £809,000 immediate action should be taken to cut expenditure to preserve reserves at their minimum recommended levels.

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 numerous areas of uncertainty which cause problems when seeking to accurately forecast available resources for the years ahead.
3. **Expenditure on homelessness is predicted to rise by £457,000 in this year and by some £931,000 in a full year – based on current demand levels.** Net expenditure on Rough Sleepers is projected to increase by £270,000 in the year and this demand is, if anything, expected to increase still further. The leader of the council has written to advise the Government and seek additional income. In parallel to this action, the Council needs to address the ongoing budget deficits - however difficult this is after 10 years of funding reductions.
4. The Medium Term Financial Strategy seeks to identify the uncertainties that impact on resource levels e.g., government spending review, lack of a fair funding review, replacement for New Homes Bonus, 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.
5. The Chancellor announced details of the Spending Review (SR21) on 27 October 2021. Whilst the government's Spending Review (SR21) covered more than one year, the funding settlement for local authorities may just cover 2022/23. However, it is currently anticipated that it will cover 3 years and be weighted towards year 1 in terms of any additional funding support.
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 2022/23 financial year. The announcement date remains unknown as yet.
7. Fundamental changes to local government funding have been anticipated for the last three years. The Fair Funding Review was postponed yet again and it has recently been announced that the proposed retention of 75% of business rate growth by councils has been dropped completely. The impact on other income streams, such as a replacement for New Homes Bonus 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 2022/23 i.e. a standstill settlement. The years thereafter assume continued funding levels (business rates) of similar amounts and increasing annually by inflation, but this may well be overly optimistic given the state of the country's finances and adult social care pressures.

Financial Context

9. The Council's total net Expenditure budget for 2021/22 is £15.501m (£84.675m gross) and is broken down as follows (full details in the budget book/ website): -

Service	Net Budget £
Corporate Resources	808,000
Operational Services	12,160,000
Interest/ Use of Reserves/ Other Grants and Contingency	2,533,000
Total Net Council Expenditure	15,501,000

10. The budget is funded by: -

Funded From	£
Revenue Support Grant	1,010,000
New Homes Bonus	173,000
Covid Grant	699,000
Lower Tier services Grant	163,000
Collection Fund Surplus – Council Tax	104,000
Collection Fund (Deficit) - NNDR	(167,000)
Housing Benefit Administration Grant	398,000
C.Tax Support Admin Grant	164,000
Business Rates	2,603,000
Business Rates (Section 31 Grant)	1,569,000
Business Rates Pooling	0
Council Tax	7,304,000
Reserves/Capitalisation (net)	1,481,000
Total Funding	15,501,000

2021/22 Review

11. The review of the current year's spending against the budget helps to update and inform the budget process for 2022/23 and beyond. In addition, there were a number of "overs and unders" within the 2020/21 accounts that when compared to

the 2021/22 budget have also helped to inform budget planning for 2022/23 and beyond, albeit with Covid-19 it has been an exceptional period which has led to more subjective, albeit informed, judgements having to be made.

12. The additional cost pressures that impact on the 2021/22 budget and reserves include:

Dangerous Structures - £525,000 (Battle Road)
National Pay Increase – £220,000 (based on a 1.75% increase)
West Hill lift Closure - £235,000 (loss of income and repairs)
Reduction in income from Sales Fees and Charges - £160,000
Homelessness - £457,000, assuming no further increase (£931,000 in full year i.e. 2022/23)
Rough Sleepers - £270,000 (External Grant support being applied for)

13. A number of the cost pressures are viewed as one-off events e.g. dangerous structures, West Hill lift closure, and others are hopefully confined to 2021/22 such as the reduction in income from sales fees and charges. However the national pay increase will have ongoing implications as will the Housing and Rough Sleepers costs unless these are properly funded by government. The housing crisis is not expected to be solved for some years given the shortage of accommodation in the town and rate of new building.
14. Given these additional costs and that Reserve levels are projected to fall below minimum recommended levels this year, **it is recommended that further in year savings and expenditure freezes in selected areas are made as per Table 1 below:**

Table 1: Savings – Including Selected Expenditure Freezes

	Revised
Savings - including Selected Expenditure Freeze in 2021/22 (Nov 2021 - March 2022)	2021-22
	£'000
Hastings Contact Centre - Reduced hours	10
External Funding - covering existing Staffing costs	25
Admin Bldgs - Town Hall - £500 pwk/ Rental of Rooms	10
Transformation team - Freeze recruitment - 5 months	17
Corporate Personnel Expenses - Revised Training Budget	30
Legal - Freeze on Recruitment (beyond debt recovery staffing)	50
Revenues And Benefits - (Including, Doc Mail £15k, Supplies and Services £10k)	25
Waste and Environmental Enforcement Team - Wardens - recruitment of 2 posts postponed	25
Together Action - Part	10
Housing - HBC Funded Deposits	100
White Rock Area Development - supplies and Services	113
Other to be confirmed	50
Additional 2021/22 savings and selected Expenditure Freeze	465

15. The table above identifies £465,000 of savings that can be achieved in 2021/22 without the need for redundancies. This is in addition to some £446,000 of in year savings already identified as part of this year's budget process and is in addition to the savings identified when setting the 2021/22 budget in February 2021. After taking account of other budget adjustments the net additional in year savings are estimated at £851,000.

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% against pre-Covid targets. However, Covid-19 has not impacted as heavily as expected on the Council Tax Support scheme, and there are fewer claimants than anticipated at this time.
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 government's rate free holidays for the first 3 months of this financial year for some businesses.

Other Income & Expenditure

19. Since determining the budget in February 2021, the Council's budget has been enhanced by the receipt of the funding for Disabled Facility Grants. This was advised in May 2021 and amounts to £2,056,655 for 2021/22 (£1,812,584 originally in 2020/21). This sum will be included within the revised budget.
20. The 2020/21 local election for Hastings BC was postponed until 2021/22 – and there will be a further local election for Hastings BC in 2022/23.
21. The Council has continued to receive government funding for the Additional Restrictions Grant and also for the Test and Trace Scheme along with some New Burdens Funding which is intended to meet the administration costs in undertaking such work.

Capital Expenditure

22. The Council's budget included spending of £22.463m on capital projects during 2021-22. Of this some £12.656m 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 £3.8m (net) given delays caused by Covid-19 and new schemes; this results in a reduced MRP cost for 2022/23.

2021/2022 - Summary

23. After eleven years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required without impacting on services.
24. **The substantial additional unfunded costs being incurred this year have drawn down the reserves much faster than anticipated and the Council needs to act now to reduce costs and to avoid having to make even more drastic cuts in the future.**

25. Covid-19 has led to many of the Council's staff working remotely on varied and competing priorities over the last 20 months. There are opportunities to work differently in the future – and to identify some further savings in doing so.

Medium Term Financial Strategy

26. 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 2022/23 – 2024/25). 10 year projections have not been produced this year due to the uncertainty on future funding, and legislative requirements but will need to be undertaken and especially so once the Town Deal business cases are produced and agreed. For the present, extrapolations have been produced for a further two years, but without future funding knowledge their use remains limited.
27. There are significant areas of budget growth in 2021/22 and 2022/23, e.g. homelessness, rough sleeping, Council Tax Support costs and the impacts of inflation and national pay increases. These cost pressures leave limited scope to address key issues such as climate change – unless there is more central funding.
28. 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, deferments, court closures, suspension of recovery action, etc. The government has required deficits in respect of business rates to be spread over a 3 year period, and the Council has put aside money to help meet this additional cost pressure.
29. 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 – albeit borrowing is taken at fixed rates to enhance certainty and remove some risk.
30. **The projected deficits for the current and future years are below:**

Revenue Budget Forward Plan	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
	Budget	Revised Projection	Projection	Projection	Projection	Projection
	£000's	£000's	£000's	£000's	£000's	£000's
Net Council Expenditure	15,502	16,310	16,471	16,791	17,368	17,650
Funding	(14,019)	(14,018)	(13,282)	(13,400)	(13,701)	(13,988)
Shortfall	1,483	2,292	3,189	3,391	3,667	3,662
Use of Reserves	(1,483)	(1,483)	(100)	(100)	(100)	(100)
Shortfall after use of Reserves	0	809	3,089	3,291	3,567	3,562

These are enormous deficits to tackle, exacerbated by Covid -19 and particularly the relentless pressures on homelessness budgets following additional legislative burdens and inadequate government funding.

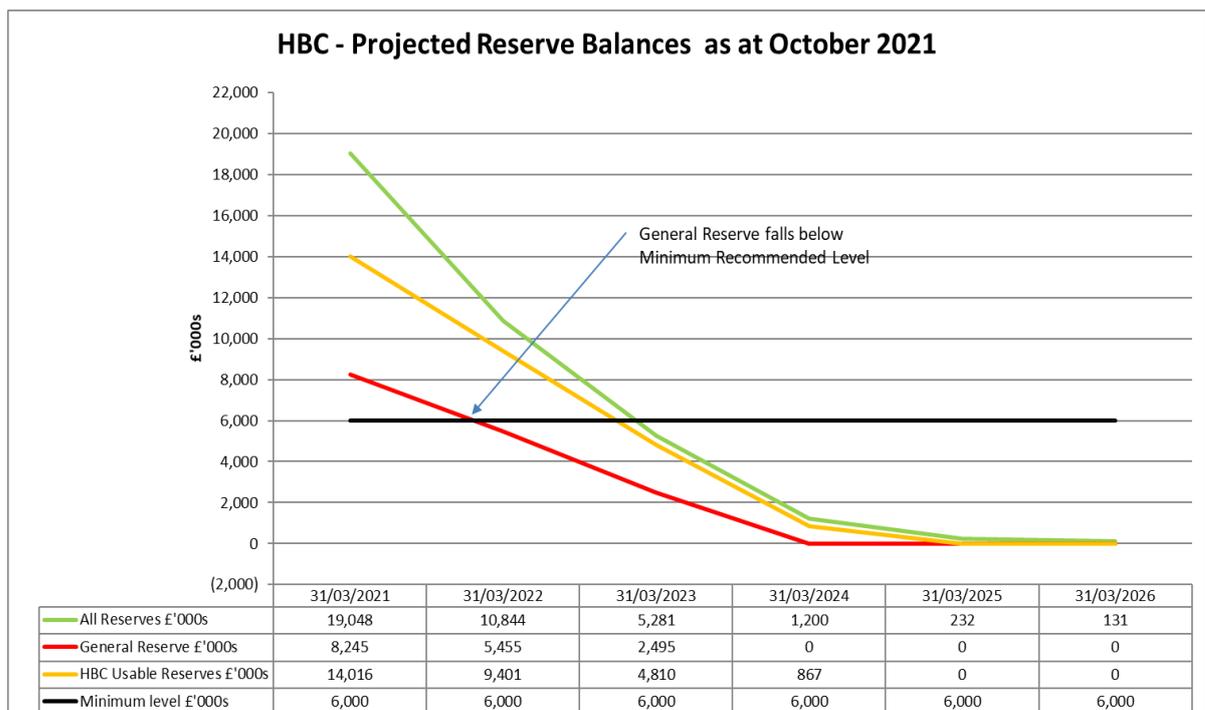
31. The financial projections in the Strategy will be refined before the budget is finalised in February 2022. However, the deficit will increase substantially this year unless urgent action is taken to contain costs.

32. Work is ongoing to identify options for cutting costs for the Council to consider when determining the budget in February 2022.

Reserves

33. The minimum level of unallocated reserves is set at £6m and has enabled the Council to withstand the impact of the pandemic relatively well. However, the increasing costs and loss of income this year means that the Council will see reserves fall below the minimum recommended level of £6m in this financial year, and before the opportunity arises of setting a revised budget in February 2022 – and reducing costs.

34. On current projections the General Reserve (unallocated) will fall to £5.5m by year end (red line)– assuming no further expenditure pressures are experienced (see graph below). The minimum recommended reserve level (£6m) is highlighted in black.



35. If the Council agrees the recommendations in this report and makes the savings identified in Table 1 it is anticipated that the Reserve levels will be near to the £6m minimum recommended level. However there are still some 5 months of the year left and expenditure and demand pressures continue.

36. The Council has a number of earmarked reserves which it would not be able to call on to help fund deficits in future years e.g. balances held in respect of S106 monies or disabled facility grants .

37. At the time of writing the 2019/20 accounts remain with the auditors, as do the 2020/21 accounts and hence the levels of reserve balances could still change .
38. Members are recommended to approve the Strategy, which identifies the deficits that need to be fully addressed in the 2022/23 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)

39. 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.
40. The implications of having inadequate reserves severely jeopardises the ability to meet unexpected costs, claims, shortfalls in income and particularly fund the capital programme and new regeneration opportunities.
41. 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. This Council has not yet reached that point but may do so if the necessary actions are not taken.
42. This Council has managed its resources effectively and has maintained adequate levels of reserves 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 2022/23 – 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

43. 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

44. The key risks are identified in the MTFs. The key areas remain future funding, identification and achievement of service cuts, new legislation, homelessness impact of inflation, business rate appeals, volatility of income receipts, and loss of staff whether it be permanently or through sickness.

Economic/Financial Implications

45. The strategy is based on continuing to receive funding from government at the same levels as 2021/22 for the next three years. Income streams are being reprofiled but remain at significant risk.
46. 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.
47. 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.
48. 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 11 years. **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 2022/23.**
49. The leader of the Council has written to the Secretary of State for Levelling Up, Housing and Communities (Rt Hon Michael Gove MP) to advise him of the increased demand pressures and has requested additional funding to meet the extraordinary costs being incurred.

Climate Change

50. 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.

Timetable of Next Steps

51. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Work to continue on identifying in year savings for 2021/22	Year end	31/03/2022	Chief Finance Officer, Senior Officers and Budget Managers.
Set balanced budget for 2022/23	Budget Full Council	16/02/2022	Chief Finance Officer, CMG, Members

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

Appendices 1,2,3 – Medium Term Financial Strategy
Appendix 4 – Details of Priority Income and Expenditure Review and proposed in-year Savings

Officer to Contact

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