

Report To: Cabinet

Date of Meeting: 3 July 2023

Report Title: Appendix 4 – MTFP Update

Report By: Kit Wheeler
Chief Finance Officer

Key Decision: No

Classification: Open

Purpose of Report

To update Cabinet on the impact on the Medium Term Financial Plan (MTFP) after the latest Financial Outturn Position for 2022/23.

Introduction

1. The Medium Term Financial Plan (MTFP) seeks to identify the financial risks that will impact the annual budgets for each of the next 3 years, and the anticipated resources that will be available to the Council.
2. It should be aligned to the latest Corporate Plans and objectives and will need to be updated regularly as latest information becomes available. Given the financial position of the Council, a regular updated MTFP will be included as a separate Appendix in all future financial reports to aid future budget discussions and provide a consistency and information flow from these reports to others that are produced throughout the year.
3. Since the budget was agreed back in February 2023 there have been a number of changes which will have a significant impact on the reserve position and financial future of the Council which were estimates at the time of producing the original MTFP and budget. These include the final outturn position at the end of the 2022/23 financial year.
4. The previous MTFP was included as part of the Budget papers agreed by Council in February 2023.

Changes from previous MTFP Forecast (2022/23)

5. Table A below is an extract from Appendix G – Revenue Budget Forward Plan which was included in the 2023/24 Budget papers agreed by Council.

Table A

Revenue Budget Forward Plan	2022-23 Projection £000's	2023-24 Projection £000's	2024-25 Projection £000's	2025-26 Projection £000's	2026-27 Projection £000's
Direct Service Expenditure (Net)	17,217	14,527	13,219	11,517	10,747
Funding Commitments:-					
Reimbursement of Election Costs (bi-annually)		0	(70)	0	0
Fees and Charges		0	(367)	(587)	(734)
Other:					
Contingency Provision	0	300	300	300	300
Interest (net of Fees) & other Adjustments	985	1,933	3,009	2,994	3,103
Minimum Revenue Provision (excl. Inc Gen Adj)	920	995	1,397	1,760	1,760
Contribution to Reserves	689	689	689	689	689
Net Use of Earmarked Reserves	(3,082)	(1,916)	(1,916)	(1,916)	(1,916)
Net Council Expenditure	16,729	16,528	16,261	14,757	13,949
Funding					
Contribution To General Fund	(13,369)	(13,997)	(14,742)	(15,068)	(15,403)
Funding Shortfall / (Surplus)	3,360	2,531	1,518	(311)	(1,454)
(Use of) / Trf to General Reserve	(3,260)	(1,631)	(1,518)	311	1,454
Use of Resilience and Stability Reserve	(100)	(900)	0	0	0
Net Funding Shortfall / (Surplus)	0	0	0	0	0
General Reserve Balance (31st March)	6,438	4,807	3,289	3,600	5,053

6. As can be seen from table A above, we were originally forecasting that there would be a Net Direct Service Expenditure at the end of 2022/23 of **£17.217m**. However, from the latest finance report (Table 1) we can see that this figure was **£16.608m**. This represents a financial improvement of **£609k** compared to budget forecast.
7. Table A also shows that we were originally forecasting that there would be net Interest Expenditure of **£985k** in total at the end of 2022/23 financial year. However, from the latest finance report (Table 1) we can see that this figure was **£663k**. This represents a financial improvement of **£322k** compared to budget forecast.

8. Table A also includes MRP forecast costs of **£920k** for the financial year 2022/23. The actual MRP (Minimum Revenue Provision) was **£870k** for the financial year of 2022/23. This represents a financial improvement of **£50k** compared to budget forecasts.
9. Therefore, in total, there were positive financial outcomes in total of **£981k** for 2022/23 financial year compared to revenue budget forecasts.

Earmarked and General Reserve Changes from previous MTFP Forecast (2022/23)

10. The General Fund Balance is the only reserve that is in effect not earmarked for a specific purpose. It is set at a level recommended by the Chief Financial Officer and currently as part of the Reserves policy for Hastings Borough Council this is set as a minimum recommended level of £6m. It represents a working balance of resources that could be used at very short notice in the event of a major financial issue.
11. As part of the Reserve Review piece of work, this level of recommended minimum balance will be reviewed along with all Earmarked Reserves based on the latest Risks and pressures facing the Council.
12. The estimated remaining balance of the General Reserve at the end of 2022/23 financial year was expected to be **£6.438m**. The actual balance is **£7.599m**. This represents a financial improvement of **£1.161m**.
13. Earmarked Reserves are those that have been set aside for a specific purpose e.g. DFG (Disabled Facilities Grant) and should only be used for specific intended purposes only. Effectively everything else other than the General Reserve.
14. The estimated Earmarked Reserves balance at the end of 2022/23 financial year was **£12.787m**. The Actual balance is **£13.440m**. This represents a financial increase of **£653k**. However, unlike the General Reserve and the revenue budget position, this change relates to a number of different specifically identified areas and does not mean that any underspend will lead to a reduced spend in those areas. It could be slippage of spend from one financial year to the next, or income received in advance of spend.
15. A full Reserves review process will cover the use of, and the number of, Earmarked Reserves to ensure that we are fully mitigating the risks to the Council.
16. It should be noted that the Council has still not had an Audit opinion on its 2020/21, 2021/22 and now 2022/23 accounts, so these figures could potentially change and are therefore considered draft until those opinions are provided by our External Auditors Grant Thornton.

Changes from previous MTFP Forecast (2023/24 onwards)

17. The end of 2022/23 provided some welcome improvements in the areas mentioned within this report. However, there are a number of unwanted financial pressures that were previously not included in the MTFP that we are anticipating for 2023/24 onwards.
18. Since the budget was set in February, ongoing negotiations between unions and the LGA are continuing around the level of staff pay increases. With no confirmed figure being agreed we are still having to use best estimates at this stage.
19. This has come at the same time as Pension contribution rates and the way they are calculated by actuaries and accounted for by the Employers mean the employer contribution rates have increased. This added to the best estimate for staffing pay awards would mean an additional charge of **£458k**.
20. There are also a number of other areas of concern and pressures for future years additional costs or loss of income which have not been identified or included, such as proposed legislation changes around Food Waste collection and Garden Waste charging, of which details are still not fully known.
21. There is also the ongoing concern around the Temporary Accommodation costs continuing to increase and threat of numbers of people presenting as homeless not decreasing in the way we would have hoped, resulting in savings needing to be increased in other areas to respond to this.
22. The SLT (Senior Leadership Team) have met to discuss the £1m savings in the budget, including options for the Capital Programme which will be presented to Lead Officers in due course. Some of which could potentially lead to savings in Capital Borrowing costs and MRP assumptions, but until we have more detailed information and conversations and the Asset Management Plan is in place the figures wont be updated at this stage. They will however, be updated as we progress throughout the financial year.
23. The Quarter 1 Finance report will provide a much needed and anticipated update around forecasts and outturn predictions for not just Service area spend but also tracking of identified savings targets. Again, this Appendix will be updated accordingly when those reports are presented so that they are all consistent but no changes have been made at this time.
24. Income forecasts for Fees and Charges, Council Tax, Grant funding and any others will be updated when those areas have more detailed work behind them to feed into this update.

25. Table B below shows the revised MTFP based on the currently known figures and any subsequent changes being documented within this report for transparency purposes.

Table B

Revenue Budget Forward Plan	2022-23 DRAFT Actual £000's	2023-24 Projection £000's	2024-25 Projection £000's	2025-26 Projection £000's	2026-27 Projection £000's
Direct Service Expenditure (Net)	16,608	14,985	13,677	11,975	11,205
Funding Commitments:-					
Reimbursement of Election Costs (bi-annually)		0	(70)	0	0
Fees and Charges		0	(367)	(587)	(734)
Other:					
Contingency Provision	0	300	300	300	300
Interest (net of Fees) & other Adjustments	663	1,933	3,009	2,994	3,103
Minimum Revenue Provision (excl. Inc Gen Adj)	870	995	1,397	1,760	1,760
Contribution to Reserves	689	689	689	689	689
Net Use of Earmarked Reserves	(1,348)	(1,916)	(1,916)	(1,916)	(1,916)
Net Council Expenditure	17,482	16,986	16,719	15,215	14,407
Funding					
Contribution To General Fund	(15,283)	(13,997)	(14,742)	(15,068)	(15,403)
Funding Shortfall / (Surplus)	2,199	2,989	1,976	147	(996)
(Use of) / Trf to General Reserve	(2,099)	(2,089)	(1,976)	(147)	996
Use of Resilience and Stability Reserve	(100)	(900)	0	0	0
Net Funding Shortfall / (Surplus)	0	0	0	0	0
General Reserve Balance (31st March)	7,599	5,510	3,533	3,386	4,382

26. As can be seen from Table B above, the General Reserve balance has improved for 2022/23, but due to the estimated staffing award and pension increases the general reserve balance is now showing £4.382m at the end of 2026/27 compared to originally showing £5.053m. This represents a negative change of £671k overall.

Section 151 Officer - Conclusion

27. The current financial position is still incredibly precarious. There will always be unexpected cost pressures that cannot be predicted, and that is what the General Reserve is effectively there to mitigate against the risk of.
28. The General reserve balance is currently predicted to fall below the current minimum recommended level within the next financial year and stay there for the length of this MTFP. That should be addressed as quickly as possible.
29. However, as stated previously there are a number of discussions ongoing at present that could well lead to significant savings above those already identified which would have a positive impact on the MTFP.
30. Therefore, I expect future balances to potentially look healthier as decisions are confirmed and numbers changed accordingly including around Capital Programme and Assets.
31. One such example which hasn't been included yet would be the contract agreement for Energy costs which could save the Council £400k over the next few years which we are currently waiting to be confirmed. Once the numbers are confirmed then the MTFP will be updated accordingly.
32. This is all set against the backdrop of the current year's forecasts remaining in line with budget expectations and the Council staying within its approved budget. Any deviation to those budgets and savings targets will have further negative impact.
33. For example, in the last two financial years the savings targets have a **78%** success rate in 2022/23 and **82%** success rate in 2021/22. If the savings identified as part of budget setting for 2023/24 achieve **c.80%** in the 2023/24 financial year, then additional in year savings of **c.£300k** would need to be found to remain in line with the forecasts contained in Table B above.
34. A **90%** achievement against target would mean additional in year savings of **c.£150k** are required. However, lower savings achieved compared to target in 2023/24 such as **75%**, would mean additional in year savings of **c.£350k**. This outlines just how important it is to monitor our savings progress as part of the monthly finance reports and to take corrective action if needed as soon as possible.

Wards Affected

All

Policy Implications

Equalities and Community Cohesiveness No

Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No
Legal	No

Additional Information

None

Officer to Contact

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