

Report To: Cabinet

Date of Meeting: 4 September 2023

Report Title: Appendix 4 – MTFP Update

Report By: Kit Wheeler
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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 which was part of the previous update to Cabinet in July 2023.
4. The MTFP was included as part of the Budget papers agreed by Council in February 2023.

Changes from original 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 previously presented finance report back in July this figure was in fact **£16.608m**. This represented a financial improvement of **£609k** compared to the original budgeted outturn for the financial year.
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 previous finance report back in July this figure was **£663k**. This represented a financial improvement of **£322k** compared to the original budgeted outturn for the financial year.

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 represented a financial improvement of **£50k** compared to original budgeted forecast outturn for the financial year.
9. Therefore, in total, there were positive financial outcomes in total of **£981k** for 2022/23 financial year compared to the original revenue budgeted forecast.

Earmarked and General Reserve Changes from Original 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 was **£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 was **£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 and a separate report is due to be presented at the next Cabinet in October.
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. However, since the last iteration of this report on the 13th July 2023 the prime minister Rishi Sunak announced that Public Sector workers including Police Officers, Junior Doctors and Teachers in England will be given at least a 6% pay award and that it will need to be funded from current departmental budgets.
20. Therefore, despite the Prime Minister omitting to mention Council staff in his announcement, it would be prudent and sensible to include a similar figure in our forecasts as a likely pay award amount to staff. This is despite negotiations continuing with unions and figures potentially being higher (or lower).
21. It should be noted that Government departments had they themselves originally budgeted for 3.5%. This compares to 3% that Hastings Borough Council budgeted for, so therefore not widely different in terms of expectations and forecasts.
22. As previously reported, this is coming at the same time as changes in pension contribution rates and the way they are calculated by actuaries and accounted for by the Employers, mean that the employer contribution rates have increased as well.
23. Whilst we cannot at this stage be certain of what level of pay award will be agreed, a number of different scenarios have been calculated in order to understand the impact on the council's budget.
24. Previously the pay award had included a minimum level of pay award to staff which was a set amount of £1,925. This was not mentioned as part of the Prime Ministers announcement back in July so the assumption is that it will not be included this time around.
25. Therefore, all figures listed for staff pay awards will be based on no minimum amount and a straight percentage increase instead. However, for comparison in brackets will be shown the financial impact if there was to be an agreed minimum amount of £1,925 with the following examples provided below.
 - If a pay award of **5%** was agreed that would lead to additional budget in 2023/24 being required of **£305k (£499k)**.
 - If a pay award of **6%** was agreed that would lead to additional budget in 2023/24 being required of **£447k (£563k)**.
 - If a pay award of **7%** was agreed that would lead to additional budget in 2023/24 being required of **£589k (£647k)**.

26. As you can see from the figures above the financial impact is considerable, and when this figure reaches 7% the costs start to rise by a greater difference between percentage points. Therefore, the Council must assume at least a minimum of 6% in its medium term financial strategy forecasts and an additional anticipated financial burden of **£447k** this financial year.
27. 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.
28. 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, as seen by the latest financial report, resulting in savings needing to be increased in other areas to respond to this.
29. At Augusts Cabinet meeting it was agreed to dispose of Assets and this will lead to welcome Capital Receipts which can be used to offset any additional borrowing costs for the Capital programme. This will lead to reductions in interest and MRP (Minimum Revenue Provision) charges to the revenue account. These figures are still being calculated in terms of impact so will be included in future reports once full timelines are known.
30. The Finance team continue to produce finance monitoring reports which is in conversation with budget holders and SLT colleagues. However, there are currently high value fluctuations month on month which provide a level of uncertainty for longer term forecasting which needs to be addressed.
31. As part of this process to try and improve the confidence in the figures, finance staff are working with budget holders to identify any training needs and where there are gaps in knowledge or understanding try to resolve this as quickly as possible. There is also a planned upgrade to the finance ERP system later this financial year in which it is hoped this will lead to better information and user experience for staff which is imperative in fully understating the budget areas as well as being able to accurately forecast for future plans.
32. 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.

33. 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
Service Expenditure (Net)	16,608	17,715	18,835	18,929	18,393
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	1,481	1,500	2,000	2,000
Minimum Revenue Provision (excl. Inc Gen Adj)	870	904	939	976	1,014
Contribution to Reserves	689	689	689	689	689
Net Use of Earmarked Reserves	(1,348)	(2,661)	(1,916)	(1,916)	(1,916)
Net Council Expenditure	17,482	18,428	19,006	18,872	19,193
Funding					
Contribution To General Fund	(15,283)	(13,997)	(14,742)	(15,068)	(15,403)
Funding Shortfall / (Surplus)	2,199	4,431	4,263	3,804	3,790
(Use of) / Trf to General Reserve	(2,099)	(3,531)	(4,068)	0	0
Use of Resilience and Stability Reserve	(100)	(900)	0	0	0
Net Funding Shortfall / (Surplus)	0	0	195	3,804	3,790
General Reserve Balance (31st March)	7,599	4,068	0	0	0

34. As can be seen from Table B above, the General Reserve balance has worsened with the latest figures included in the main report for 2023/24.

35. The General reserve balance is now showing £4.068m at the end of 2023/24 financial year compared to originally showing £4.807m. This represents a negative change of £739,000 for this financial year and the expectation that the General Reserve will be zero by the end of the next financial year.

Section 151 Officer - Conclusion

36. The current financial position is continuing to worsen and remains critical. 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.
37. The General reserve balance is currently predicted to fall below the current minimum recommended level within the current financial year and now remain there for the length of this MTFP. That should be addressed as quickly as possible, and something highlighted as part of the recent Financial Peer Review work.
38. Despite the best efforts of officers and Councillors of this Council to address the financial emergency, the combination of anticipated pay award and in particular increasing costs of Temporary Accommodation to house the homeless and vulnerable even with savings targets being achieved in the majority of other areas it will not be enough to prevent the General Reserve balance being exhausted within the next financial year.
39. Therefore, in reaction to this worsening position, officers have already held further discussions with colleagues at the Department for Levelling up, Communities and Housing (DLUCH) and our External Auditors (Grant Thornton) around the next potential options available to us as a Council.
40. Discussions are also ongoing with CIPFA (Chartered Institute of Public Finance & Accounting) to provide Councillors with a briefing session on the implications of a Section 114 notice being issued by the Section 151 Officer. This must be stressed will be the last option taken and officers are hopeful that discussions with colleagues elsewhere will lead to positive outcomes being achieved in order to prevent this situation occurring.
41. It should also be noted that Hastings Borough Council is not the only Council in discussions with Colleagues at DLUCH. It is becoming more and more common for Councils, (potential estimate of over a hundred other Councils) are in current discussions around financial support with central Government departments.
42. If a Section 114 notice is issued to Hastings Borough Council by the Section 151 Officer, it will be a very different scenario in terms of reasons that have previously been cited elsewhere more recently across the sector.
43. This Council is struggling to cope financially with the demand placed upon it by the Housing Crisis, despite some excellent work being done locally by the Housing team and other colleagues supporting them.
44. However, with the Housing crisis continuing nationally and showing no signs of abating the impact on this Council, along with many, many others will be substantial across the country unless something is done immediately to help address this issue.

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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