

**Report to:** Cabinet

**Date of Meeting:** 6 November 2023

**Report Title:** Medium Term Financial Strategy (MTFS)

**Report By:** Kit Wheeler  
Chief Finance Officer

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### **Purpose of Report**

The Medium Term Financial Strategy (MTFS) 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.

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### **Recommendation(s)**

- 1) Approve the Medium Term Financial Strategy.
- 2) The Council continues to take a proactive and robust approach to delaying or ceasing all Capital programme expenditure not deemed to be of a legal or statutory responsibility or can demonstrate a clear reduction of revenue expenditure.
- 3) The Council continues to evaluate the current asset portfolio and identify any suitable potential disposal options to generate additional Capital receipts to alleviate financial burdens around borrowing costs for the current Capital programme.
- 4) The Council reviews its new Council wide financial restrictions, (brought in from October 2023) for its effectiveness, financial results, and organisational impact.
- 5) Service cost areas are reduced in the current and future financial years, to provide the necessary savings to balance the budget, with a pre-Section 114 approach.
- 6) The Council continues to focus on reducing the temporary housing expenditure, with the requirement of producing a Housing and Homelessness strategy outlining how those costs are to be reduced before 2025/26.
- 7) The Council commits to implementing and co-ordinating its individual strategies to align with one single long term overall Corporate Plan. This includes Green

Initiatives, Housing and Homelessness, Cultural Regeneration, IT, HR (including Equalities), Capital Financing and Asset Management.

- 8) Full Council to note the actions to address the Budget deficit and if no conclusive savings identified, that the issue of a Section 114 notice will take place in 2024/25.

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## Reasons for Recommendations

Hastings Borough Council, like many other councils, is continuing to face some of the biggest financial challenges and pressures in recent years, possibly ever.

The ability to deliver key services to the most vulnerable is becoming increasingly hard to do. Static funding from Central Government, coupled with high cost of inflation on all services, rising homelessness and temporary accommodation costs, and tighter restrictions on how Councils can fund capital expenditure is providing a perfect storm.

Under the Local Government Finance Act 1992, as amended by the Localism Act 2011, it is a statutory requirement that Councils set a balanced revenue budget.

A major overhaul of the funding mechanism for local authorities has continuously been postponed and when combined with a regular one-year spending reviews, continues to provide considerable uncertainty on funding in future years.

The Council needs to be able to match its available resources to its priorities across the medium term and to maintain sufficient reserves and capacity to deal with potentially large and unexpected events, in addition to fluctuations in income and expenditure levels.

We have seen in recent years what impact Covid-19 had on our ability to deliver services and the wider economy, so we must be prudent to guard against similar unexpected and impactful local and even global events outside of our control.

In a previous Medium Term Financial Strategy update report to Cabinet back in September 2022, and then reinforced as part of the Budget report agreed by Council in February 2023, it highlighted the need for the council to reduce its direct service expenditure, in particular, the escalating temporary accommodation costs for homelessness.

As outlined as part of the regular financial monitoring reports which include a MTFs update appendix, those same temporary housing costs, (as well as some unavoidable additional costs elsewhere) have worsened the financial position rather than improve it.

This has resulted in further additional savings needing to be identified in order to balance the budget in the current and future financial years and the Council has brought in additional financial restrictions across the organisation from October 2023.

The management controls implemented so far include:

- all expenditure over £1,000 will need to be signed off by the Chief Finance Officer and either the Chief Executive or Deputy Chief Executive
- expenditure below £1,000 will be signed off by two Heads of Service
- a temporary ban on non-contractual overtime
- a reduction in the use of current agency staff and temporary ban on appointing any new agency staff (there will likely be some exceptions to this)
- a pause on subscriptions and memberships
- a pause on externally provided training.

It is therefore imperative that attention is drawn once again to the current and future financial position of Hastings Borough Council and that Members act immediately on the recommendations as outlined in this report.

Failure to do so will result in the issuing of a Section 114 notice by the Chief Financial Officer, in the next financial year. Members have also been invited to a briefing presented by CIPFA (Chartered Institute of Public Finance and Accountancy) around the legal impact of that process and will have an opportunity to ask more detailed questions on 27<sup>th</sup> November 2023.

Although previously included in financial reports, it is worth a reminder about what a Section 114 notice is and what the impact would be on Hastings Borough Council as a result, and this is provided in Appendix 2.

## **Introduction**

1. Appendix 1 updates the MTFs, taking into account the latest forecasts and estimates, whilst making more broader assumptions around funding and wider economic fluctuations. In compliance with the relevant codes and as good practice recommends, the financial planning assumptions are kept under constant review.
2. The current MTFs considers the financial outlook over the next three years and reflects the forthcoming legislative changes, the uncertainty around cost of living pressures, and takes a prudent approach when estimating any expected grant funding from Government. This could include delays to funding reforms, previous savings success against targets and any other emerging demands and pressures.

3. Given the timing of this report it is acknowledged that this is an interim step before the budget setting process is completed, however, the Medium Term Financial Strategy currently identifies a cumulative funding gap of **£13.8m** until the end of 2026/27 financial year. **£4.3m** of that total is in the current financial year of 2023/24.
4. Therefore, and unless urgent and drastic action is taken the Councils General Reserve will be all but extinguished by the end of next financial year.
5. This is completely unsustainable for the future going concern of the council and needs to be urgently addressed as highlighted and discussed in previous reports.
6. If no action is taken, then the council would be unable to fulfil its statutory obligations to set a balanced budget in future years and have no prospect of doing so.
7. It is a breach of the Councils statutory obligations to commit expenditure where the funding source is not available, and long-term borrowing is not permitted when the medium-term financial plan is not in balance.
8. Councils have a legal requirement to operate within a duty to provide Best Value and allowing the situation outlined above to occur in the future would be a clear breach of that duty.
9. The Council's external auditors (Grant Thornton) would issue a public interest report and there would be a risk of government intervention – which could include commissioners being appointed to oversee the councils' operations including spending.

## Conclusion

10. The Financial situation that the Council currently finds itself in means that further urgent and decisive action is required to reduce the rising expenditure costs for the current financial year, in particular Temporary Housing expenditure and arrest the decline in our general reserve balance which is not sustainable.
11. The immediate action for management is to continue with the current financial restrictions implemented from October 2023 until at least the end of this financial year and to review the financial benefits, as well as the organisational impact before deciding on a longer term strategy.
12. Reviews of service areas and their current forecasts to address any overspends within their departments to find in year and future savings wherever possible are currently underway. The Chief Finance Officer, Chief Executive and Deputy Chief Executive are attending these meetings to ensure a strong Corporate and consistent approach to challenge budget holders further on all areas of spending across the organisation and includes both statutory and non-Statutory areas.

13. The MTFs has been prepared on a basis of the most prudent forecasting around additional Grants from Government and any additional income streams. At the time of writing there are no formal timelines confirmed for when the Local Government Settlement will be announced, but early indications are that we will not receive that information until very late December 2023 after a later than usual Autumn statement is expected.
14. Given that the Council is facing further difficult, and regrettably much needed budget saving decisions, some of which are likely to directly impact Council staff and services, the Leader of the Council has committed to bringing forward the consultation period and to agree the savings plan in December 2023 before the Settlement is announced.
15. This will allow for the necessary time and consultation period to take place throughout December and in time for final figures to be calculated as part of the Full Budget being agreed as usual in February 2024. This should therefore mean a faster implementation period in the new financial year from April 2024 onwards, and prevent any delays from occurring, risking the success of the financial savings being achieved as a result.
16. A key part of the MTFs is that it aligns with the strategic longer term vision of the Council, including an up to date Corporate Plan. At the time of writing this report, the Corporate plan (along with a number of other significant strategies used in the formulation of the MTFs) have not been completed or updated. This is a key area of business planning and the financial risk that this creates by not having the completed strategies is to be mitigated as soon as possible in order to secure the longer term financial sustainability of the Council.
17. As part of the budget setting process a review of the Earmarked reserves will continue as agreed as part of the Reserves policy, with the stated aim of maximising Earmarked Reserves wherever possible to reduce the burden on the General Fund.
18. It is imperative that Hastings Borough Council continue to lobby the Government to recognise the circumstances (i.e., the costs of Temporary Accommodation) that are fuelling the rise in the budget deficit. Meetings continue with colleagues at DLUHC (Department for Levelling up, Housing and Communities) with the aim of securing the future financial sustainability of the Council.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Budget Planning (Savings Plan)	Cabinet	December 2023	Chief Executive / Finance Officer
Fees and Charges	Cabinet	December 2023	Chief Finance Officer
Set a longer-term balanced budget	2024/25 budget Council	February 2024	Chief Finance Officer

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### Wards Affected

All

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### Implications

Please identify if this report contains any implications for the following:

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

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### Additional Information

Appendix 1 – Medium Term Financial Strategy (MTFS) 2024/25-2026/27

Appendix 2 – S114 notice guidance

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### Officer to Contact

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