

FINANCIAL UPDATE 2017/18 AND MEDIUM TERM OUTLOOK

1. Purpose of Report

- 1.1 This report provides the Panel with an update on the latest position with regards to the 2017/18 budget, confirms the current assumptions made within the forecast for the 2018/19 budget and medium term, and gives the panel an update on the Council's Treasury Management position.

2. Background

- 2.1 There are two types of financial reports that are presented to the Cabinet throughout the year. The Financial Monitoring Reports (FMR) focus on the current year's performance and provide a forecast budget outturn, and the Medium Term Financial Plan (MTFP) reports give updates on the current forecast budget position over a 3-4 year period, allowing for known and estimated funding and budget changes. Often items featured in the FMR's feed into the MTFP, if the adjustments are on-going.
- 2.2 In February 2017, at the same time as setting the 2017/18 budget, the Council approved the Treasury Management strategy covering 2017/18 – 2019/20. A Treasury Management progress report was reviewed by the Audit Committee in August 2017, and an outturn report is reviewed each June.

3. Latest Position 2017/18

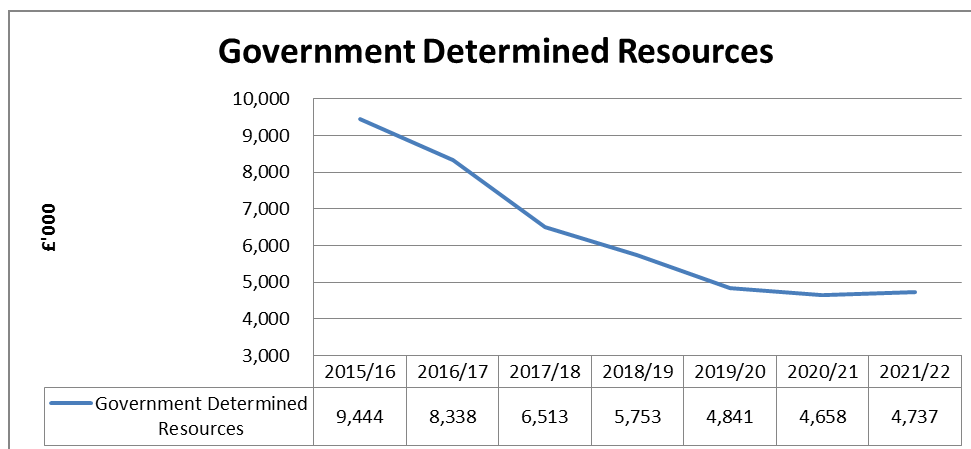
- 3.1 A General Fund budget of £16.587m for 2017/18 was agreed by the Council in February 2017. This budget was £604k lower than the base budget for 2016/17, despite pay, pension and price increases of £937k.
- 3.2 The 2017/18 budget included a £5 increase to Band D Council Tax. Appendix 1 provides a breakdown of the New Forest Council Tax on a pro-rata basis per Portfolio level service/cost area.
- 3.3 The first FMR of the year (Aug Cabinet) identified budget savings of £499k and new budget requirements of £567k. The FMR also included rephasings of £1.146m and the bringing of offsetting budgets into 2017/18 (use of earmarked reserves) totalling £1.296m.
- 3.4 Table 1 summarises the change in budget position as a result of the reported variations, outlined above. The Cabinet report listed the variations on an individual basis.

Table 1

	Savings £'000	New Req. £'000	Rephasing £'000	Total £'000
Original Budget April 2017/18				16,587
Portfolio / Committee Items	-245	325	253	333
AMG / Asset Replacement	-254	80	496	322
Business Development / Third Party	0	162	397	559
	-499	567	1,146	17,801
Transfer from Earmarked Reserves		-150	-1,146	-1,296
Updated Budget July 2017				16,505

4. Latest Assumptions 2018/19

- 4.1 The latest funding forecast includes for a reduction in Government Determined Resources when comparing 17/18 to 18/19 of £760k (12%), with further reductions to come over the medium term:



- 4.2 Council Tax is now the Council's main funding source, in 2017/18 representing 64% of the Council's funding. An assumed increase for 2018/19 of £5 (equivalent to 3.06%) has been allowed for in the MTFP assumptions, which is forecast to generate an additional £353k. A baseline adjustment is also made (£57k), reflecting the number of new homes in the district. This total increased Council Tax yield reduces the net funding shortfall down to £350k.
- 4.3 As of July expected Pay & Price increases for 2018/19, including the additional costs associated with the band 1-4 pay review and £8.00 minimum pay point, are £921k. At this point the total budget gap for 2017/18 is (£350k + £921k) £1.271m. If the pay award exceeds the 1% currently allowed for, for each additional 1% that is applied, the budget gap increases by £220k (although there is a slim possibility of increased

Government funding as the public sector across the Country will have insufficient funds to cover the national implication).

4.4 Latest forecast savings and additional income generation for 2018/19 total £1.005m:

	£'000
• Year 2 Service Management Budget Stabilisation	480
• Delivery Plan Reviews	100
• Reduction in Asset Maintenance / Equipment Replacement Resources	80
• Interest Earnings	150
• Previously approved reviews / projects	45
• Development Control Income	150
	1,005

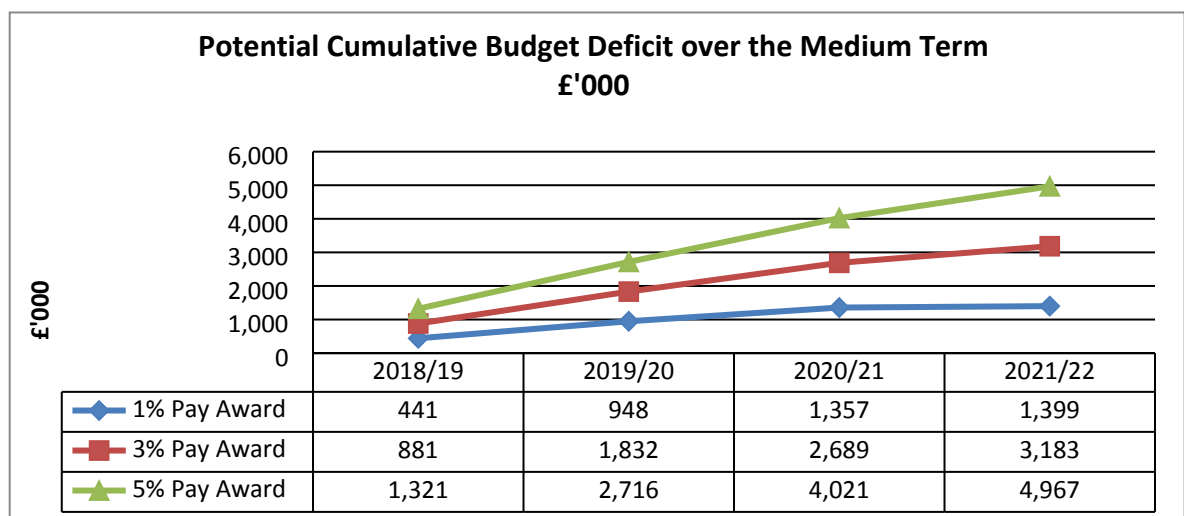
4.5 Additional resource requirements in order to fulfil strategy implementation and a shortfall in Land Charges income also need to be built into the budget assumptions, at a cost of £175k.

4.6 The current forecast position therefore for 2018/19, is a deficit of £441k:

	£'000
• Government Determined Resources	-760
• Council Tax	+410
• Pay / Pension / Price Increases	-921
• Savings / Income	1,005
• Additional Requirements	-175
	-441

4.7 The £5 Council Tax is clearly subject to agreement, the £1.05m savings / income all need to be finalised and delivered and the Pay Award level for 2018/19 is yet to be agreed. Additional to this is the likely requirement to allocate budget to fund more fundamental review consultation and ensure sufficient and appropriately skilled resource is in place to meet the ICT strategy.

4.8 It is likely that the Council will need to face some difficult decisions going forward in relation to the scale of operation, type of service delivery, and the fees it levies on its services, as the position over the Medium Term results in some extremely difficult financial challenges ahead:



- 4.9 The October Medium Term Financial Plan will need to expand on the 5 point plan as initially included in the July report, confirming a greater focus on the services provided and their alignment with the corporate plan, a wider consideration of the best operational business model, maximisation of income and a move towards more efficient methods of customer interaction, to ensure financial sustainability over the Medium Term period.



- 4.10 The annual Budget Task & Finish Group will convene late September, and will challenge the performance, financial assumptions and aspirations of each of the Portfolio Holders, keeping in mind the difficult financial challenges ahead.

5. Asset Maintenance and Replacement (AMR) Programme 2017/18 and 2018/19

- 5.1 This panel reviewed and recommended to the Cabinet the proposed AMR programme for 2017/18 at its meeting in December 2016. The original programme budget for 2017/18 ultimately agreed in February 2017 was £2.380m included within the General Fund. The revised programme for 2017/18, taking into account the rephasings from 2016/17, and following a review of project requirements, now totals £3.295m. Also approved along the same route were projects totalling £836k, funded via use of reserves.
- 5.2 The proposed make-up of the 2018/19 budget includes £2.3m for the Asset Maintenance and Replacement Programme from revenue, and £750k from reserves, in support of the year 2 'ICT Protect and Maintain Frontline Service Delivery' programme, established as part of the 2017/18 budget setting.

	£'000
• Offices, Depots and Outlying Buildings (inc. PC's)	450
• Health & Leisure	500
• ICT	200
• Vehicles and Plant	1,050
• Non-core project fund (to be bid against)	200
• Proportion of Programme to be recharged to HRA	-100
	2,300

5.3 Officers will be drawing up their programmes to fit in with parameters as above, to be reviewed by EMT, and brought back to this Panel for review before inclusion in the 2018/19 budget.

6. Capital Programme 2017/18 and 2018/19

6.1 This Panel reviewed and recommended to the Cabinet the proposed General Fund Capital Programme for 2017/18 at its meeting in December 2016. The original programme budget for 2017/18 ultimately agreed in February 2017 was £5.976m. The revised programme for 2017/18, taking into account the rephasings from 2016/17, and following a review of project requirements, now totals £7.788m.

6.2 Officers will be drawing up their programmes, to be reviewed by EMT, and brought back to this panel for review before inclusion in the 2018/19 budget.

7. Treasury Management Update

7.1 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives.

7.2 The Council has an investment portfolio consisting of reserves and short-term cash flows. The Council is currently investing according to a low risk, high quality lending list as outlined in its Treasury Management Strategy.

7.3 Given the increasing risk and continued low returns from short-term unsecured bank investments, it is the Council's aim to further diversify into more secure and/or higher yielding asset classes. The majority of the Council's surplus cash was previously invested in short-term unsecured bank deposits, certificates of deposit and money market funds.

7.4 The Council's investment holding was £72.86m principal at 31 July 2017, which is £9.45m (14.9%) higher than the same time last year. Table 2 shows investment activity for the Council as at 31 July 2017. Asset values have been used rather than principal values to provide a better comparison to the reported investment activity as at 31 March 2017.

Table 2

Investments	Asset value on 31/03/2017 £m	Asset value on 31/07/2017 £m	Average Rate/Yield on 31/07/17 %	Average Life on 31/07/17 years
Short term Investments				
- Banks and Building Societies:				
- Unsecured	7.0	15.6	0.34	0.27
- Secured	8.8	10.9	0.65	0.40
- Money Market Funds	12.3	5.5	0.23	0.00
- Local Authorities	12.0	18.0	0.73	0.45
- Corporate Bonds	2.6	1.5	0.66	0.38
	42.7	51.5	0.54	0.35
Long term investments				
- Banks and Building Societies:				
- Secured	11.8	10.5	0.62	2.10
- Local Authorities	3.0	3.0	1.17	2.14
	14.8	13.5	0.74	2.11
High yield investments				
- Pooled Property Funds*	3.2	4.1	4.44	n/a
- Pooled Equity Funds*	2.1	2.1	6.96	n/a
- Pooled Multi Asset Funds**	-	2.0	n/a	n/a
	5.3	8.2	5.27	n/a
TOTAL INVESTMENTS	62.8	73.2	0.99	0.72
Increase/ (Decrease) in Investments £m		10.4		

* Yield represents the average of each investment's most recent dividend payment as a percentage of the asset value.

** Due to the short period of time invested in this fund (initial investment was 29 June 2017), income yields are not yet available.

7.5 The Council has invested in further high yield investments by increasing its investments in the pooled property fund asset class, and by investing in pooled multi-asset funds. The strategy for 2017/18 allowed for a limit of up to £25m for long term investments, and it is intended that this will be reached before the end of the calendar year (currently £13.5m + £8.2m = £21.7m).

7.6 The investments in pooled property, equity and multi-asset funds allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. The funds which are operated on a variable net asset value (VNAV) basis offer diversification of investment risk, coupled with the services of a professional fund manager; they also offer enhanced returns over the longer term but are more volatile in the short-term. All of the Council's pooled fund investments are in the fund's distributing share classes which pay out the income generated.

7.7 Although money can be redeemed from the pooled funds at short notice, the Council's intention is to hold them for at least the medium term. Their performance and suitability in meeting the Council's investment objectives are monitored regularly and discussed with Arlingclose, the Council's Treasury Advisors.

7.8 The investments held have a relationship with the value of the Council's usable reserves as well as including fluctuations in cash balances as a result of the Council's role as a collection authority. As a result of the 2016/17 outturn, the usable reserve balances increased by £7.477m, to the levels as shown below:

	Gen. Fund £m	HRA £m	TOTAL £m
• Working Reserve	3.0	1.0	4.0
• Earmarked Reserves	3.4	21.3	24.7
• Capital Programme Reserve	12.1		12.1
• Capital Receipts Reserve	0.8	6.8	7.6
	19.3	29.1	48.4
• CIL Unapplied			0.8
• DCs Unapplied			3.3
			52.5

7.9 The original budget for 2017/18 includes assumptions that £1.1m will be utilised to fund specific revenue projects, £7.5m will be used to finance the Capital programme, and the rephased budgets held in earmarked reserves at the year-end now added to the 2017/18 budget total £3.2m.

8. Crime & Disorder / Equality & Diversity / Environmental Implications

8.1 There are no implications as a direct result of this report.

9. Recommendations

9.1 That the Panel note the contents of this report, and feedbacks any relevant comments for inclusion in the October MTFP report to the Cabinet.

For Further Information Please Contact:

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Background Papers:

MTFP – 5 July 2017
FMR – 2 August 2017

Use of Band D Council Tax: 2017/18 Budget

