

FINANCIAL REPORT TO HANNINGTON PARISH COUNCIL 11th December 2018:
Draft Budget 2019/20 and Three Year Medium Term Financial Strategy

PURPOSE OF REPORT

- A. To provide a Draft Budget 2019/20, for approval, within the context of a Three Year Medium Term Financial Strategy, and
- B. To seek agreement from the Parish Council to submit the requests to BDBC for the Precept and Grants 2019/20.

RECOMMENDATIONS:

That the Parish Council AGREES:-

BUDGET 2019/20

1. **agrees the Draft Budget 2019/20 as summarised in paragraphs 5 – 9, and, notes the financial scenario as presented in the Three Year Medium Term Strategy, detailed in Appendix A,**

PRECEPT 2019/20, and General Administration Grant

2. **being mindful of the decision taken two years ago "to agree in principle to apply a similar financial strategy over the medium term to 31st March 2020 ie to increase the precept year-on-year to compensate for loss of grant and for inflationary pressures" that the Parish Council considers increasing its Precept by 2% (para 16).
Alternatively the Council could chose,**
3. **taking into account the previous strategy to increase its Precept in 2017/18, being the first of the three years of the withdrawal of two of the BDBC grants, to fully offset the aggregated loss from those three years in Year One, and the level of projected cash balance of £11,856 as at 31st March 2020, that the Council agrees to retain the Precept at its current cash amount £6,837.**

Projected Outturn 2018/19: based on information as at 30th November 2018

4. The Council Agenda has a detailed report Budget Monitoring 2018/19 that includes a projected outturn for the current year with a cash balance as at 31st March 2019. These figures for the projected outturn/cash balance have been used as the starting point for the construction of the draft Budget 2019/20 at Appendix A. As stated in paragraph 27 of that report, the Financial Statement suggests the cash balance as at 31st March 2019 would be £10,700.
5. After taking into account the decisions of the Council to establish the five 'Earmarked Reserves' totaling £5,250, the General Reserve (Operating Fund) as at 31st March 2019 would stand at £5,450. This is £450 (9%) in excess of the target figure previously approved by the Parish Council as being a reasonable and justifiable level.
6. In summary, the Budget Monitoring statement 2018/19 concludes:-
 - Cash balance as at 1st April 2018 £8,926

- Add Receipts (Income) in the year £7,742
 - Less Payments (Expenditure) in the year £5,965
 - Providing a surplus in year of £1,777
 - A Cash balance as at 31st March 2019 £10,703
 - Less: Allocated to Earmarked Reserves £5,250
- Leaving: General Reserve (Operating Costs) £5,453**

7. However, as there have been no indications of there being any expenditure in 2018/19 on 'repairs to footpaths', and therefore the £200 still shown as potential expenditure is unlikely to be spent, the cash balance as at 31st March 2019 is more likely to be £10,900, and General reserve (Operating Costs) £5,650.

Draft Budget 2019/20

8. The Draft Budget 2019/20 and Three Year Medium Term Financial Strategy 2019/20 to 2021/22 (see Appendix A) is constructed based on a continuation of previous financial strategic decisions:-
- i. Unlike in previous years, BDBC has NOT yet informed HPC of any planned 'capping' on year-on-year increases in local authority Precepts; albeit that it did NOT apply to small parish councils. HPC would therefore be at liberty to increase its Precept as it chooses... or to keep it level, or even to reduce it.
 - ii. The Council Tax Support Grant and the Limited General Grant will have been reduced to zero for 2019/20. This reduction was announced by BDBC in their letter to parish councils 3 November 2016 and that it would take place over three years. HPC took remedial action in the first of those years TO COMPENSATE IN FULL IN THE FIRST YEAR BY INCREASING ITS PRECEPT BASE by £1,200.
 - iii. routine Operating Costs remain generally at the same level as in the current year,
 - iv. there is no allowance for inflation; with the exception of Clerk's salary where the known increase agreed by NJC has been applied, plus a further year-on-year increase of 2%.
 - v. Having established the FIVE Earmarked Reserves, there now remains ONLY ONE 'Capital and one-off provision for expenditure'; that being £200 each year for repairs to footpaths. This is set at such a low level as the Parish Council budget is presuming continued access to the HCC Lengthman's Scheme providing access to £1,000 per annum.
 - vi. VAT payments and recovery in subsequent year is based on the above.
 - vii. Earmarked Reserves: the Council decision in Sept 2016 to apply an initial £1,000, and then to further contribute by £700 each year, towards the "a. Provision for repairs and maintenance to the Unadopted Roads" and
 - viii. the FOUR further Earmarked Funds as follows:-
 - b. Locum Clerk,
 - c. Legal Costs,
 - d. IT replacement, and,
 - e. costs of cyclical R&M to Wellhead.

9. As with any financial model, there is always room for different interpretation. However, as a starting point the above, as detailed in Appendix A, represents the 'status quo' with the implementation of the strategy for five Earmarked Reserves. However, the Budget has also recognized there are 'known unknowns' with regards to potential routine items of expenditure such as R&M for the noticeboards (no provision made), and footpath repairs (£200 provision made).
10. Finally, the Budget and Three Year Strategy retains a separate heading 'allowance for one-off items of expenditure' (the unknown/unknowns). No provision has been made for this as it is anticipated that a General Fund Operating Fund held at £5,000 has sufficient flexibility to cover any 'unknown/unknowns' that may occur in the year.
11. The following financial model shows in summary the effect of the above strategies on the Budget 2019/20 and for the following two years through to 31st March 2022

Financial model of Three Year Medium Term Financial Strategy 2019/20 to 2021/22

	2018/19	2019/20	2020/21	2021/22
Precept	6837	6837	6837	6837
BDBC Grants	632	233	235	237
VAT refund	273	317	416	424
Total Receipts	7742	7387	7488	7498
Routine running costs				
Clerk's salary	3115	3210	3306	3405
Other 'fixed' operating costs	1683	1758	1828	1813
Village Green mowing	650	650	650	650
VAT on 'admin'/capital costs	317	416	424	416
Total 'admin' costs	5765	6034	6208	6284
One-off and/or capital costs				
Allowance for R&M footpaths	200	200	200	200
TOTAL Payments in year	5965	6234	6408	6484
Cash Balance b/fwd 1 April	8926	10703	11856	12936
Surplus in year	1777	1153	1080	1014
Cash Balance c/fwd 31 March	10703	11856	12936	13950
Allocated to Earmarked Provisions Reserves	5250	5950	6650	7350
Balance held in General Fund at year end	5453	5906	6286	6600

CONCLUSIONS

12. The above table, an extract from the detailed Budget 2019/20 and medium term financial strategy (App A), shows that even with NO INCREASE IN THE PRECEPT FOR THE NEXT THREE YEARS, the Council would generate an Operating Surplus in each year of £1,800 at the end of (current year 2018/19), £1,200 (next year 2019/20), £1,100 (2020/21) and £1,000 (2021/22)... resulting in cash held £10,700 (31 March 2019), £11,900 (31 March 2020), £12,900 (31 March 2021) and £13,900 (31 March 2022). By any measure, it can be seen that HPC's finances are in a very healthy position.

13. However, it has also been recognized that there are underlying potential financial liabilities that are not 'operating costs' but could well occur at some time in the future. The Council has established FIVE Earmarked Reserves, Whilst there is every likelihood that road repairs, Wellhead repairs and replacement of IT will occur at some unknown date in the future; there is less 'certainty' that the remaining two – legal costs and locum clerk – will occur. Nevertheless, it is still prudent to make some financial provision for them.

14. The Council has previously agreed to increase by £700 in each year the Earmarked Reserve for HPC's proportion for R&M for Unadopted Roads. **This annual increase of £700 has therefore already been built into the financial strategy.** The Council therefore has an excess over the £5,000 agreed target amount to be held in its General Fund (Operating Fund) as shown below:-

- £453 as at 31st March 2019
- A further £453 in 2019/20... making £906 as at 31st March 2020
- A further £380 in 2020/21... making £1,286 as at 31st March 2021, and,
- A further £314 in 2021/22... making £1,600 as at 31st March 2012.

These 'excesses' are the amounts in each year the Council could reasonable expect to be able to use to increase the remaining FOUR Earmarked Reserves.

This position is shown in tabular form by way of an extract from App A as

10,703	11,856	12,936	13,950
2,400	3,100	3,800	4,500
800	800	800	800
800	800	800	800
750	750	750	750
500	500	500	500
5250	5,950	6,650	7,350
5,453	5,906	6,286	6,600

What Action can the Parish Council take?

Option One is to accept the above financial scenario and not increase its precept.

15. This would indicate that the Parish Council wishes to proceed as presented above and 'flat line' its Precept at the cash amount of £6,837 for the next three years i.e not allowing any increase for inflation. As can be seen from the DRAFT Budget 2019/20 and Three Year Medium Term Financial strategy at Appendix A, this approach would provide sufficient funds:-

- to enable the Parish Council to meet its operating costs of administration,
- to have a General Fund reserve of £5,000, which was the target amount agreed previously by Council,
- to build up its Earmarked Reserves as previously agreed, and
- to allocate further small additional amounts to the Earmarked Reserves as shown in the bullet points in para 14.

Option Two is to continue the current strategy of increasing its Precept by the current 'rate of inflation'

16. To take this route, the Council would need to be able to justify the increase (albeit marginal) when it is already holding substantial cash reserves. Allowance for inflation at 2% on the current 2018/19 Precept of £6,837 Precept, and in each of the subsequent years would result in:-

- 2019/20 £6,974 i.e. plus £137
- 2020/21 £7,114 i.e. plus £140
- 2021/22 £7,257 i.e. plus £143
- ... an accumulated increase over those three years of £420.

17. The impact of the inflationary increase in the precept would simply be to increase the 'excesses' referred to in paragraph 11, and to increase the amounts in each year (para 13) that can be used to increase the Earmarked Reserves.

**RECOMMENDATIONS:
That the Parish Council**

18. Agrees the Draft Budget 2019/20 as summarised in paragraphs 5 - 9, and detailed in Appendix A, and,

19. being mindful of the decision taken two years ago "to agree in principle to apply a similar financial strategy over the medium term to 31st March 2020 ie to increase the precept year-on-year to compensate for loss of grant and for inflationary pressures" that the Parish Council considers increasing its Precept by 2% (para 16).

Alternatively the Council could chose,

20. taking into account the previous strategy to increase its Precept in 2017/18, being the first of the three years of the withdrawal of two of the BDBC grants, to fully offset the aggregated loss from those three years in Year One, and the level of projected cash balance of £11,856 as at 31st March 2020, that the Council agrees to retain the Precept at its current cash figure £6,837..

21. Parish Councils are required by BDBC to submit their Precept and Grant application forms by 31 January 2019. The application forms are completed in 'cash terms'. The forms are signed by the Clerk (RFO), Chairman and two parish Councillors.

NOTE: NO DECISION IS REQUIRED AT THIS STAGE ON THE ALLOCATIONS TO THE FIVE EARMARKED RESERVES. The decisions should be taken as part of the formal approval of the Final Accounts 2018/19 i.e. at its May 2019 meeting.