Report to: **CABINET**

Date of Meeting: 13 February 2017

Report Title: Revenue Budgets 2016/17 (Revised) and 2017/18, plus Capital Programme 2017/18 to 2019/20

Report By: Peter Grace

Assistant Director - Financial Services & Revenues
(Chief Finance Officer)

Purpose of Report

1. This report presents the revised revenue budget for 2016/17 and a budget for 2017/18. The revised budget for 2016/17 takes account of the known variations to expenditure and income streams that have occurred since setting the budget in February 2016.

2. In setting the budget for 2017/18, recognition has been taken of the very significant ongoing reductions in external funding for the years ahead. The report identifies that a balanced budget can be achieved in 2017/18 although this involves using £546,000 of reserves built up for this purpose. The forecast deficit for 2018/19 is some £1.7m and in 2019/20 is £2.1m. The alignment of the Council's available resources to its priorities requires the continuing review of services during the next 12 months in order to achieve balanced and sustainable budgets in the years beyond.

3. This Cabinet meeting is a key part of the budget setting process. Full Council on the 22 February 2017 will be responsible for setting a balanced budget and determining the Council Tax. If the recommendations in the report are approved by Council there will be an increase in the Borough's part of the Council Tax in 2017/18 of 2.04% (£5 for a Band D property).

4. Please note that that the final grant settlement figures from government have yet to be received along with Disabled Facility Grants and Discretionary Housing Payments; once received adjustments will be made to the figures detailed in this report. Precepts will also be updated once actual figures are received from East Sussex County Council, the Police and Crime Commissioner and the Fire Authority.

Recommendation(s)

Cabinet to recommend to full Council to:-

(i) Approve the revised revenue budget for 2016/17 (Appendix A).

(ii) Approve the draft 2017/18 revenue budget (Appendix A)

(iii) Approve a 2.04% (£5 for a Band D property) increase in the Borough Council's part of the Council Tax.

(iv) Agree that the absolute minimum level of reserves that shall be retained be £5m (plus General Fund Balance) i.e. no change from 2016/17.

(v) Approve the Capital Programme 2016/17 (revised) to 2019/20 (Appendix P).

(vi) Approve the proposed expenditure from the Renewal and Repairs Reserve, and Information Technology Reserve (Appendices J and I respectively) and those items from other reserves shown in Appendix H that can proceed without further reference to Cabinet or Council.

(vii) Approve that the use of the monies in the budget and Reserves for "Invest to Save" schemes be determined by the Assistant Director - Financial Services & Revenues in consultation with the Leader of the Council.

(viii) Approve the revised Land and Property Disposal Programme (Appendix L), and agree that disposals can be brought forward if market conditions make it sensible to do so.

(ix) Agree that schemes marked with an asterisk in the Capital Programme can proceed without further reference to Cabinet or Council.

(x) Agree that work on Priority Income and Efficiency Reviews (PIER) should continue, and where possible identify a sustainable budget for a period in excess of one year. A mid-year review, for members and officers, to be undertaken in the light of the continuing severe government grant reductions.

(xi) Approve the Car Parking charges for 2017/18 as detailed in Appendix N

(xii) Approve the detailed recommendations in Appendix M, which relate to the setting of Council Tax in accordance with Sections 31 to 36 of the Local Government Act 1992 (updated for full Council).

(xiii) Approve that the budget be amended as necessary to reflect the final grant figures from government (once received) and in respect of Discretionary Housing Payments and Disabled Facility Grants.

(xiv) Approve the reduction for the Council Tax Prescribed Class D Properties i.e. those which are vacant and are undergoing “major repair work” or “structural alteration” to nil %.

Reasons for Recommendations

1. Major reductions in funding in 2017/18 are set to continue to 2019/20 and beyond and this will impact heavily upon the Council’s ability to provide services and grants across all areas of existing activity.

2. Since 2010/11 funding has been reduced by more than 50% in cash terms on a like for like basis. To ensure key corporate priorities are achieved it remains imperative that the limited resources available are properly targeted.

3. The Council needs to be in a position 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.

4. The Council is exposed to a much greater degree of volatility in the level of funding it receives through Non Domestic Rates. In addition it is also exposed to a much higher degree of volatility in terms of Council Tax Support claims – the Council now receiving an upfront sum as part of the annual grant settlement rather than reimbursement of actual costs.

5. Further reductions in grant funding have major implications for the Council and as such work needs to continue to identify and make savings in order to produce balanced budgets in 2017/18 and beyond.

Introduction

1. The Chancellor’s November 2016 autumn statement identified that the real term reductions in local government funding would continue. Debt would rise from 84.2% of GDP last year to 87.3% this year and increasing to 90.2% in 2017/18. As a result the government no longer seeks to deliver a budget surplus by the end of this parliament but as “early as possible” in the next parliament. There will be no easing of austerity for public services.

2. On a national basis significant public spending cuts continue to be made, which along with reduced levels of benefit payments flowing from the welfare reforms will impact heavily on individual households. Lower levels of disposable income may result in even more pressure on Council services such as Housing and Revenue Services.

3. The Council when setting the budget in February 2016 forecast that there would be a deficit in 2016/17 of some £881,000, and £1,490,000 in 2017/18. A balanced budget for the two years being achieved by using limited amounts of the Council's

reserves. The position has improved in 2016/17 following in-year initiatives such as the purchase of Muriel Matters House (previously Aquila House) and the Sedlescombe Road retail park, service transformation work and an improvement in the Social Letting Agency's position. The deficit now forecast for 2016/17 is some £60,500. For 2017/18 following extensive service transformation work, service reviews and reductions, initiatives to generate additional income, as well as some budget growth, the deficit is estimated at some £546,000. The level of risk within the budget and uncertainty within the forecasts has increased – particularly the uncertainties surrounding Brexit, business rate income, inflation prospects, demands on services, and claims being made against the Council e.g. Pier and NHS rate claims.

4. From information supplied with the government grant settlement, the reduction in the Settlement Funding Assessment for Hastings BC in 2017/18 is 11.5% or £726,000. With the level of government grant continuing to decrease at such significant levels in the years ahead, and the limited ability to increase Council Tax or increase charges, the Council will need to make further substantial savings in order to produce sustainable balanced budgets in the years ahead.

5. The Council's external auditors have commended the Council on its approach to financial management over the last few years and its approach to maintaining and enhancing reserves whenever possible. This approach has helped the Council in its transition to date and the continuation of this approach is proposed.

6. It should be noted that the budget does not include the anticipated increases in expenditure (both Capital and Revenue) or increases in income that will arise during the year as income generation schemes are approved. The Treasury Management Strategy included elsewhere on the agenda makes the recommendation that the overall authorised borrowing level be increased over the next few years in order to enable investments and income generation schemes to proceed should the Council approve them. The increases do not provide a licence to spend to these levels.

Strategic Priorities

7. The Council's strategic priorities were refreshed for 2016/17 in the light of consultation and the continuing challenges that the Council and the community face and they continue to remain valid for 2017/18. They are:-

(a) **Economic & physical regeneration:** To secure economic & physical regeneration that produces high quality new developments while preserving the best of our heritage, high standards of education and training, road & rail improvements and high-speed broadband, thereby creating economic growth and rewarding jobs, particularly in tourism, creative industries, and high-tech manufacturing & research.

(b) **Cultural regeneration**: To contribute to the regeneration of the borough through a rich cultural programme that appeals both to local people and visitors, extending, broadening and promoting the borough's cultural activities to establish Hastings as a nationally and internationally recognised centre for arts and culture.

(c) **Intervention where it's needed:** To make full use of our available powers and sanctions to tackle anti-social behaviour or practices, including poor housing, eyesore properties, unauthorised development, derelict land, fly-tipping and dog fouling.

(d) **Creating decent homes:** To facilitate the supply of secure, affordable and well-designed homes, through strategic planning policies, planning conditions, regulation of the private rented sector, tackling and eliminating bad landlords, and by working with social housing providers.

(e) **An attractive town**: To maintain visually interesting, well-maintained, uncluttered, clean and functional urban public spaces, especially along the seafront and in our town centres, integrated with high quality protected green spaces accessible to all.

(f) **A greener town:** To promote practices that minimise our carbon footprint through our policies and our own operations, protect and enhance biodiversity, and limit damaging consequences of human intervention on the natural environment.

(g) **Transforming the way we work** – To maximise the benefits provided by new technology, to take opportunities for smarter 'One Team' working and continue our drive to be more Customer First focused and efficient in the design and delivery of services.

Financial Planning - Medium Term Financial Strategy

8. The Medium Term Financial Strategy, approved in November 2016, provided indicative budget forecasts for the 3 year period 2017/18 to 2019/20.

9. Given the need to plan for future years, the Medium Term Financial Strategy, identified key principles to be followed when compiling the budget as well as identifying the financial risks and opportunities more closely. The Financial Strategy is robust in that it integrates the financial and policy planning procedures of the Council.

10. That robustness is built upon a foundation of key principles:

(i) Ensure the continued alignment of the Council's available resources to its priorities.

(ii) Maintain a sustainable revenue budget.

This means meeting recurring expenditure from recurring resources. Conversely non recurring resources such as reserves and balances can generally be used to meet non recurring expenditure providing sufficient reserves and balances exist.

Whilst the principle remains sound the Council consciously strengthened its reserves in the last few years, knowing that these will be required to ease the transition to a sustainably funded Council and to meet key corporate priorities.

The Council now requires the use of these reserves to achieve balanced budgets over the next few years.

(iii) Adequate Provisions are made to meet all outstanding liabilities.

(iv) Continue to identify and make efficiency savings

Each year there is a thorough examination of the Council's existing budgets to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews – PIER)

(v) Review relevant fees and charges comprehensively and identify income generating areas as a means of generating additional funding for re-investment in priority services.

(vi) Capital receipts and reserves will primarily be available for new investment of a non-recurring nature thereby minimising the overall financial risk.

Resources will be allocated to invest in the Council's assets to ensure they support the delivery of corporate and service priorities.

Resources will be made available to finance invest to save schemes to help modernise and improve services and generate efficiencies in the medium term.

(vii) Ensure sufficient reserves are maintained.

Some reserves, having been built up in the last few years, are specifically identified to ease the transition to a lower spending Council and to meet key corporate priorities.

(viii) Ensure value for money is achieved in the delivery of all services and that the Council seeks continuous improvement of all services.

It should be noted that the annual governance report produced by the Council's external auditors in September 2016 gives a very positive opinion on the Council's provision of value for money services.

(ix) Maintain affordable increases in Council Tax whilst accepting that such an objective is linked to the amount of annual government grant, inflation and new legislative requirements.

(x) Recognise the importance of partners in delivering cost effective solutions for services.

The Key Factors Impacting on the Budget

Funding from Business Rates

11. The government launched the Business Rates Retention (BRR) scheme on 1 April 2013 as one of the main forms of local government funding. Instead of a single grant settlement for 2017/18 the Council receives details of Revenue Support

Grant (RSG) and the Business Rate Baseline Funding level (expressed as Baseline Need). The two figures effectively make up the Settlement Funding Assessment (SFA). Whilst the government calculate a notional business rate figure they believe each Council should collect, ultimately it is the actual level of business rates collected that will determine the total funding received for this element of the settlement i.e. the level of RSG is guaranteed throughout the year whilst the business rate element is not.

12. To fund the Baseline Need element, the Council has an expected level of business rates (or National Non Domestic Rates (NNDR)) that is to be collected. Due to differences between Baseline Need and the level of business rates actually collected there is a further budget adjustment required.

13. The rateable value (RV) of business properties at the start of the 2017/18 year is forecast to be some £62.9m. However given the level of appeals, forecasting income levels for 2017/18 and beyond remains challenging. Business rates and the levels of appeals/ growth/ decline has been highlighted as a real risk yet again and will continue to impact significantly on the Council's level of funding. It is one of the key risks that the Council faces in terms of income volatility.

14. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council will collect some £20.9m of which the Council share is some 40% (£8.3m in 2017/18). For Hastings however with a Baseline Need that is lower than the Business Rate Baseline a Tariff is paid to central government – this amounts to £5,243,291 in 2017/18 as well as a levy. The estimate of the business rate income collected that will be retained by the Council in 2017/18 amounts to £2,997,000.

15. The picture for 2017/18 and beyond is further complicated by elements of business rates being reimbursed separately by central government e.g. doubling the threshold of 100% relief for small businesses to rateable values of £12,000 (tapered to £15,000). For 2017/18 a sum of £724,000 (estimate of HBC's share) has been allowed for these various elements - payable under Section 31 of the 2003 Local Government Act.

16. The Council is required to make an annual assessment of the income it expects to collect from business rates, and to provide these figures to government, East Sussex County Council and the Fire and Rescue Authority who each receive a share of the actual rates collected.

17. The Business Rates Pooling arrangement within East Sussex will end at 31 March 2017 due to appeal levels, revaluation implications and uncertainties on growth. The pool results in monies that would otherwise be paid to the government in terms of a levy being retained within East Sussex. A review will be undertaken in 2017/18 with a view to re-establishing a pool for 2018/19.

External Funding – Annual Grant Settlement (and 4 year indicative forecast)

18. The 2017/18 provisional finance settlement was announced on 14 December 2016 with the final settlement figures expected to be confirmed in February 2017. The settlement provides details of the Revenue Support Grant and the levels of

Business rates that the government expects councils to retain – the two figures combined make up the Settlement Funding Assessment.

Year	Settlement Funding Assessment (£ 000's)	Decrease (£ 000's)	Percentage Change (Annual)	Percentage Change (Cumulative)
2015/16	£7,194			
2016/17	£6,331	-£863	-12.0%	-12.0%
2017/18	£5,605	-£726	-11.5%	-22.1%
2018/19(Est)	£5,224	-£381	-6.8%	-27.4%
2019/20 (Est)	£4,801	-£423	-8.1%	-33.3%

19. In terms of the cash grant that the Council receives from the government (Revenue Support Grant) the Council signed up to the 4 year settlement offered. The updated figures of the grants receivable over the period are detailed below. The Council will lose £797,000 in Revenue Support Grant in 2017/18, and by 2019/20 will have lost £2,739,000 (73.5%), leaving a grant allocation of some £988,000.

Year	Revenue Support Grant (£ 000's)	Decrease (£ 000's)	Percentage Change (Annual)	Decrease (Cumulative) (£ 000's)	Percentage Change (Cumulative)
2015/16	£3,727				
2016/17	£2,835	-£891	-23.9%	-£891	-23.9%
2017/18	£2,038	-£797	-28.1%	-£1,689	-45.3%
2018/19 (Est)	£1,542	-£496	-24.3%	-£2,185	-58.6%
2019/20 (Est)	£988	-£554	-35.9%	-£2,739	-73.5%

20. The Council should also receive a small amount of Transition Grant funding in 2017/18 of £5,466 (£5,493 in 2016/17), but will not receive it thereafter.

21. Discretionary Housing Payments (DHP's) play a vital role in supporting a lot of people affected by the welfare changes. The grant figure for 2016/17 amounted to £277,703. For 2017/18 the funding amounts are yet to be advised. This funding will be fully subscribed and the budget will be updated once the details are received

22. In brief, save for the reductions in the New Homes Bonus funding the annual grant settlement figures for 2017/18 were in line with overall expectations in the Medium Term Financial Strategy.

Summarised Grant Position

23. The level of grants received from the government between 2010/11 (the year before the previous Comprehensive Spending Review) and 2016/17 have decreased by over 50%. For the period 2010/11 to 2019/20 the reduction in cash grant funding is estimated at 70% on a like for like basis (i.e. excluding Council Tax Freeze Grant, Homelessness Grant and Council Tax Support Grant in order to provide a clear comparison). These figures are all based on cash and exclude the effects of inflation (the inclusion of which would increase the % reductions even more).

24. In 2017/18 the Council will lose £797,000 in Revenue Support Grant. New Homes Bonus is some £379,000 less than in 2016/17 as detailed in the report and is set to fall further. These two grants losses alone amounting to some £1,176,000. This loss of grant when combined with the additional costs from inflation and pay increases and demand pressures present the Council with significant financial and resource challenges.

Core Spending Power

25. The government identified a new term last year, which is similar to the previous Revenue Spending Power. Core Spending Power sets out the expected available revenue for local government spending through to 2019/20 using Office of Budget Responsibility (OBR) estimates.

26. The Core Spending Power figures for Hastings from 2016-17 through to 2019-20 are derived from the sum of the following core components:

(i)The Modified Settlement Funding Assessment amounts,

(ii)The council tax requirement (excluding parish precepts).

(iii) New Homes Bonus

The table below shows the government's projections of how much funding the Council will retain after 4 years.

Illustrative Core Spending Power of Local Government;					
	2015-16	2016-17	2017-18	2018-19	2019-20
	£m	£m	£m	£m	£m
Settlement Funding Assessment*	7.29707	6.33086	5.60491	5.22377	4.80082
Council Tax of which;	5.83549	6.05425	6.29539	6.54370	6.80179
New Homes Bonus	1.01720	1.39594	1.017633	0.771364	0.740114
Transition Grant	0.00000	0.00549	0.00547	0.00000	0.00000
Core Spending Power	**14.14975**	**13.78655**	**12.92340**	**12.53883**	**12.34273**
Change over the Spending Review period (£ millions)					-1.8
Change over the Spending Review period (% change)					-12.8%

27. It can be seen from the above table that under this new measure, the Core Spending Power of the Council reduces by 12.8% over the period shown.

28. In practice however when looking at the year on year reductions in funding the figure is not helpful. The overall reduction in Settlement Funding Assessment (Business Rates, Revenue Support Grant and other rolled in grants) for 2017/18, is 11.5% - i.e. just in 2017/18 alone. In real cash terms the Revenue Support Grant reduces by 28.1% (£797,000) in 2017/18 alone. The figures do not include other funding received from the government such as Housing Benefit Administration grant.

Income Generation

29. The Council has a number of key income streams besides Council Tax and business rates. These include for example rents from land and industrial estates and shopping centres, cemetery, cliff railways, planning, licensing, lettings and land charges.

30. The Council now receives additional income of some £135,000 p.a. from renting out parts of the Town Hall and Muriel Matters House (previously Aquila House). From 2016/17 the Council is making a net saving of some £75,000 p.a. from purchasing the building rather than paying rent. The total of some £210,000 p.a. goes a little way to meeting the massive funding reductions the Council is experiencing and thus helps to protect services.

31. In November 2016 the Council purchased a small retail park in Hastings for £7.275m. This along with the completion of the new BD foods factory unit and some other small income streams will result in an additional £500,000 of income for the Council - against which there are financing costs.

32. Other projects in the pipeline already, include income from additional beach huts/chalets (£40,000 p.a.), new seafront kiosk (£8,000 p.a.).

33. Given the Council's need to generate significant levels of new income if services are to be protected, an income generation strategy will be forthcoming shortly, which will consider the merits (or otherwise) of investing within Hastings or outside of Hastings and the strategies to be employed in comparing the merits of investments in for example commercial property vs electricity generation/trading vs housing etc.

34. Given the significant funding reductions in the years ahead and the freedoms available for competent councils, the Council is continually looking to increase the income it can generate. Trading will generally require a separate company(s) to be set up e.g. housing company. Each and every opportunity will, like now, need to be supported by a careful evaluation of the opportunities and associated risks. To this end an Income Generation Board has been established which will operate within the Council's governance arrangements.

35. The Council's income generation plans will involve both capital and revenue expenditure. The Council is able to borrow for capital expenditure but must determine its overall borrowing limits prior to the start of the financial year. It is able to vary them within the year, but such decisions can only be taken by full Council. The purpose of setting borrowing limits is to ensure that the borrowing costs are prudent and affordable when determining the budget. The proposed levels are contained within the Treasury Management Strategy which is considered by the Audit Committee and Cabinet before being determined by full Council.

36. Income generation will form an increasingly important aspect of the Council's activities in order to support key services and some of the key areas are identified in the Corporate Plan. There is expected to be further calls on the remaining Invest to Save Reserve (as well as other reserves) in order to set up some of the initiatives and meet some of the revenue borrowing requirements of any newly formed trading company (s).

Fees and Charges

37. The council has limited reserves and remains reliant upon income streams and investment returns to balance the budget. Given the welfare changes and low wage settlements, there are continuing implications for a number of the council's income streams in the medium term. Rental streams from shops remain under considerable pressure e.g. Priory Meadow. Given that income streams remain a risk, fees and charges have been kept under careful review and are considered annually against the background of Council priorities, the local economy and its needs, and people's ability to pay.

38. In respect of most fees and charges, with a few exceptions, these have generally been increased by some 10%, except where set by statute. The majority of planning fees are determined nationally by government. The government had announced that they would "consult on allowing well-performing planning services to increase their fees in line with inflation at the most, providing that the revenue reduces the cross subsidy that the planning function currently gets from council tax payers". To date no announcement has been received on revising the statutory charges.

39. Car parking charges were last increased in February 2015 for a 24 month period (increases were applicable from 1 April 2015). The Council is experiencing a significant increase in business rate costs over the next few years on some of its car parks following the recent national revaluation. The Council has also recently invested heavily in updating the town's CCTV system which provides cover for the car parks. Some of the car parks are regularly full and it remains important that those car parks situated near to the commercial hub are priced effectively to ensure that spaces are available for shoppers. The Council will investigate more flexible charging rates as a way of managing car park use e.g. higher charges on summer weekends in seafront and town centre car parks. It is proposed that car parking charges are increased for 2017/18 as detailed in Appendix N.

Investment and Borrowing

40. The low levels of interest received on balances looks set to continue for at least the next 6 months. Base rates are not expected to increase in 2017 from their current level of 0.25%. The Council's treasury advisers were indicating a fall to 0.1% by December 2016 and spring 2018 as the potential date for the next interest rate increase back to 0.25%. However following the American election result, the rate is not expected to reduce. Given the restricted counterparties list and short investment periods, investment returns of around 0.5% are predicted in 2017/18. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

41. The council has had additional borrowing requirements in 2016/17 to finance the acquisition of Muriel Matters House, the new factory on Castleham, the acquisition of the retail park and other capital schemes. This increases the borrowing costs as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision).

Inflation

42. This has not been a major issue over the last couple of years. Inflation has however been increasing over the last few months and looks set to increase further. In December 2016 it was 2.5% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 1.6%.

43. The council allowed 1% for inflation in 2016/17, and 2% for the years beyond in its budget projections.

44. Inflation, according to the Bank of England inflation report is expected to be at or around the 2% target in the next two years, but some commentators are suggesting a spike of around 2.7% next year or even higher.

45. Based upon the above projections, general inflation is being estimated at 2% overall for 2017/18 and beyond, with only contract inflation being allowed for in the budget i.e. a real cash freeze again for all other service expenditure areas. Any increases above this level would need to be contained within service budgets within the year.

Public Sector Pay Settlement and National Living Wage

46. The figures in the budget assume a 1% increase for 2017/18 and beyond. In addition there are contractual increments (equivalent of around ½%).

47. The salaries budget together with national insurance and pension costs amounts to some £11.2m in 2016/17. The estimated costs will increase by some £190,000 in 2017/18.

48. The Council remains committed to paying the accredited living wage (£8.45 per hour), which is significantly higher than the national minimum wage of £6.95 per hour for over 21's, and the new minimum wage premium for over 25s of £7.50 per hour that will come into force across the UK in April 2017. As a result of the latter the Council can expect the costs of external service provision to rise. The Council will need to ensure it reviews specifications closely in order to ensure overall costs do not rise– as has very successfully been the case with regard to cleaning contracts.

Council Tax Reduction Scheme

49. In 2013/14 the government paid an upfront grant in respect of Council Tax support, leaving the council to fund any "in year" increase in demand. In 2014/15 the Council Tax Support Grant was rolled into the Settlement Funding Assessment and thus effectively decreases in line with the annual reductions in grant funding. The council determined however that its own scheme (The Council Tax Reduction Scheme) would remain the same in 2015/16, it did the same again for 2016/17, and the same again for 2017/18 (Full Council in December 2016).

50. The Council Tax Reduction Scheme continues to pose a significant financial risk for the Council. That risk being that should claimant numbers increase the additional costs now fall on the Council and its preceptors rather than the government. The Council will need to continue to retain adequate reserves for this purpose. However, there has been a reduction of some 3% in the numbers seeking assistance and this has resulted in fewer discounts being granted. This impacts positively on the calculation of the Council Taxbase.

51. Given that overall levels of government funding continue to decline year on year, the Council will again need to review the affordability of the scheme during 2017/18, and will do so in conjunction with neighbouring authorities.

Universal Credit & Benefit Administration Grant

52. In terms of Universal Credit the programme of transfer was originally expected to commence in October 2013 in respect of new claims with existing claims being completed by 2017/18. The first new claims actually took place in April 2015 but has had relatively little impact on the service until the 14 December 2016 when all new claims for those of working age and some change of circumstances transferred to Universal Credit.

53. The impact of the change is for a reduction in benefit claims, an increase in questions and support, and a reduction in the Council Tax and Housing Benefit

administration grant receivable in the years ahead. The implications on staff and services will begin to be understood in the coming weeks and decisions will then be taken in the light of the funding reductions. It should be noted that the final stage of converting the stock of existing Housing Benefit claims onto Universal Credit is still some years away – to be completed by 2022.

54. The Department for Work and Pensions (DWP) are providing additional funding to the Council in 2017/18. Some of this will be required to fund external support organisations (£52,000) for those providing debt advice, etc, which is paid on a per head basis Some funding however is to meet the additional burdens on dealing with DWP enquiries, complex cases and closing down existing claims. The total support will amount to some £117,000 in 2017/18 (some £38,000 in 2016/17).

55. The Benefit Administration Grant for 2017/18 has however been reduced to £460,841 (from £568,874) – a loss of £108,033. Please note the Council Tax Support Grant has been separated out from the Benefit Administration Grant line (see Appendix 1).

56. The government have previously stated that TUPE will not apply with the introduction of Universal Credit, but that they may meet the redundancy costs should these arise – providing the Council can prove it has taken all possible steps to avoid such costs. The DWP has committed to providing funding forecasts for 2018/19 early in the new year to aid resource planning within councils.

57. The level of Council Tax Support Administration Grant receivable in 2017/18 has now been notified at £178,467(£189,698 received in 2016/17). This represents a reduction of £11,231(a 5.9% reduction).

58. Sizeable reductions in grant funding are expected in the years ahead as Universal Credit is rolled out – reductions in grant will necessitate ongoing reviews as to how the Council delivers this service.

Council Tax Exemptions

59. From April 2013, billing authorities in England took on an additional power over certain Council Tax discounts. The level of discounts and exemptions the Council provides has been reduced in order to bridge the gap in funding from Government and at the same time minimise the impact on the less well-off residents in the Borough.

60. Properties which are vacant and are undergoing “major repair work” or “structural alteration”, referred to as Prescribed Class D properties, can attract a discount of between 0% and 50%, for a maximum of 12 months. Some 300 claims are expected for this discount in 2016/17. The Council has the discretion to vary both the discount percentage and the time period. The savings arising from a full reduction would amount to some £120,000 in a full year of which some £17,000 would be a saving to Hastings Borough Council. The County Council, Police and Fire Authority who are all experiencing funding pressures would also benefit. It is recommended that the percentage be reduced to 0% from 1 April 2017.

61. This does not affect the remaining exemptions e.g. registered charities, people in care homes, prisoners, student examples, carers. More information on exemptions is available on the Council website.

Pension Fund Contributions

62. The Council's contributions to the pension fund managed by East Sussex County Council are determined every three years following an actuarial valuation. A new valuation has been undertaken in 2016 with revised contribution rates becoming payable from April 2017.

63. The rates currently payable by the Council consist of the primary contribution rate plus 1% for future ill health retirements (these are percentages of salaries of staff in the pension scheme) plus a lump sum (secondary rate), namely:

2016/2017 - 20.6% +1% + lump sum of £248,800

64. The combined rates for 2017/18 and beyond are as detailed below.

2017/18 - 23.8%
2018/19 - 24.3%
2019/20 - 24.8%

The fund's Actuary has now provided a split between primary and secondary rates and the budget figures have been amended as a result. In addition there is 0.75% to add for future ill health retirements (reduced from 1%).

65. The future rates become :

2017/2018 -17.3% +0.75% + lump sum of £489,000 (6.5%)
2018/2019 -17.3% +0.75% + lump sum of £540,000 (6.5%)
2019/2020 -17.3% +0.75% + lump sum of £594,000 (6.5%)

66. The major change in how the primary rate is calculated affects all service budgets and many recharges within the Council's budget. County have advised as follows

"In prior valuations we have set the primary rate (i.e. the percentage of pay rate) equal to the employer's Future Service Rate calculated at the valuation date based on a single set of valuation assumptions. At this valuation, the Fund has taken the decision to set the primary rate in a risk-adjusted way, i.e. the rate required to ensure the cost of future service is fully funded over the employer's time horizon (e.g. 20 years for HBC). The calculation of the Primary rate is therefore consistent with comPASS modelling (this modelling enables the Fund to quantify alternative strategies by assessing the probability) which the Fund carries out for all stabilised employers.

Setting the primary rate for stabilised employers in this way allows for expected market conditions and asset returns over the next 20 years. Because of this, the Primary rate is not as volatile as Future Service Rates valued using the single set of valuation assumptions, which are based on market conditions on a single day. Although the move to the risk-based primary rate will lead to a one-off shift in the percentage of pay rate payable by employers at this valuation, going forward we expect the Primary rates to remain more stable at future valuations."

67. An increase of 1% on the primary contribution rate (a £100,000 p.a. increase in the Council's contributions) had been included in the forward projections for 2017/18. The actual cost amounts to a stepped increase estimated at some £105,000 p.a. by 2019/20 (now expecting no additional costs in 2017/18).

Grants

68. The Council receives a number of revenue grants each year e.g. New Homes Bonus, but has also been very successful in attracting numerous "one off" type grants in the last couple of years e.g. Rogue Landlord funding, Coastal Revival funding, Future Cities, and Active Women Programme, Answers in the Local Economy (ACE), Hastings Fisheries Local Action Group (HFLAG).

69. Regional and European funding successes have been very significant for Hastings. The Council has made further grant applications for very substantial sums of money and will continue to look to attract such funding to Hastings in the years ahead. Recent bids which the Council is involved in include, for example:-

    (i) Climate Active Neighbourhoods (CAN) (£870,000 over 3 years),
    (ii) Sustainable Housing Inclusive Neighbourhoods (SHINE) (£1.5m over 4 years),
    (iii)Community Led Local Development (CLLD) (£3.3m),
    (iv)Destination White Rock – continuing the economic revival (£1.5m over 2 years),
    (v) HFLAG 2 , (DIY TOV)DIY Regen: Transforming Ore Valley (£3.9m).

    If all, or most of these bids are successful the regeneration work within Hastings should remain significant.

70. A new grant of some £470,000 has recently been awarded across East Sussex authorities in respect of Homelessness – to cover a three year period. Initial estimates are now included in the budget.

71. The monies paid to the Council from the Clinical Commissioning Group (CCG) for various joint initiatives are included in the budget (£1.09m in 2017/18) and thus inflates the Council's net expenditure figures (funding included in transfers from reserves).

New Homes Bonus

72. This grant regime commenced in April 2011. This is a grant that rewards the building of new houses and for bringing long term empty properties back into use. The sum receivable in 2016/17 amounted to £1,387,912.

73. The government announced in the November 2015 Autumn Statement that it would be consulting on changes to the New Homes Bonus - the money saved going to Social Care. The changes to the scheme to commence in April 2017.

74. The outcome as announced on the 15 December 2016 has been to reduce the period that it is payable for - from 6 years to 4 years with a transition year for 2017/18 whereby 5 years is payable. The government have also decided to

introduce a minimum growth baseline of 0.4% below which the bonus will not be paid; this they state reflects a percentage of housing that would have been built anyway. The payment of a small amount to reflect the increase in affordable properties does not appear to be affected by the threshold decision.

75. As a result of these changes the Council will now receive only £5,600 in new Homes Bonus in respect of the 2017/18 year as against some £152,000 that would otherwise have been payable.

76. To achieve the government's estimated income of £144,730 in 2018/19 the number of completions (and empty property reductions) would need to increase from some 143 this year to some 250 next year (some 236 band D equivalent properties).

77. The table below shows the New Homes Bonus receivable by the Council in 2017/18 and the estimate for 2018/19.

Table: New Homes Bonus

Year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 (Est)
	£	£	£	£	£	£	£	£
Year 1	194,710	194,710	194,710	194,710	194,710	194,710		
Year 2		189,838	189,838	189,838	189,838	189,838		
Year 3			119,097	119,097	119,097	119,097	119,097	
Year 4				382,670	382,670	382,670	382,670	
Year 5					119,542	119,542	119,542	119,542
Year 6						382,055	382,055	382,055
Year 7							5,600	5,600
Year 8								144,730
Total	194,710	384,548	503,645	886,315	1,005,857	1,387,912	1,008,964	762,467

78. The reduction in funding between 2016/17 and 2017/18 amounts to some £379,000 (- 27.3%).

79. Councils are using the bonus in different ways, either to help balance budgets, strengthen reserves, or for one off activities that do not add to ongoing spending commitments. For Hastings, the money has been fully utilised to help balance the budgets in every year since its introduction.

80. The New Homes Bonus has been an important part of the government's effort to use funding to incentivise growth. The grant is currently funded by top-slicing the general formula grant and there are naturally real concerns over the re-distributional effects which can disadvantage deprived areas of the country with

lower house prices or in areas where developers are less likely to want to build, or where land is expensive to develop.

81. The introduction of a 0.4% baseline is very unhelpful, and will impact significantly on the more urban, densely populated and deprived areas where there is generally less land available for development. It also should be noted that there remains a risk that this grant regime could effectively be ended altogether, particularly if all business rates are returned to councils in 2019/20. Representations have been made to the government in respect of the introduction of the 0.4% threshold.

Revised Budget 2016/17

82. The revised 2016/17 total service expenditure budget amounts to £16.04m, against an original budget of £15.7m (Appendix A).

The main variations are summarised in Appendix C. These include:-

(1) Social Letting Agency – The original budget identified a cost to the Council of £59,566. The revised estimate identifies an improved position and that this will achieve a break even position for the year. No new properties are being taken on at present given the uncertainty on the funding regime. There is a real risk that the annual grant regime which is set to replace the current benefit payment regime will not cover the costs of the scheme. A review will be undertaken by the service as soon as grant levels become clear.

(2) Selective Licensing – the scheme was budgeted to make a surplus of £233,000 in 2016/17. The revised estimate for the year is for a deficit of £25,430 (an adverse variance of some £258,000). The 2017/18 budget is forecasting a surplus of £32,000. Any surplus achieved is being returned to the General Reserve – until such time as the deficits are extinguished. Additional enforcement and prosecutions are taking place, which will help ensure this is achieved.

(3) Development Control – an additional £116,000 was included in the budget following a restructure - as agreed by Cabinet.

(4) Homelessness and Preventing Repossessions - Expenditure on Supplies and Services (mainly temporary accommodation) looks set to increase to some £520,000 from £286,000. Whilst some of this may be recovered in Housing Benefit, there is a net growth in the budget of some £50,000 in 2016/17 and 2017/18. This is a worrying trend, especially given the problems experienced elsewhere in the country where Universal Credit is now in place. The ability of Councils to recover the accommodation costs will be challenging and necessitates a close examination of current arrangements.

(5) Youth Homelessness – the initiative has continued in 2016/17 partially funded by a revenue grant amounting to £34,500. The net additional cost of continuing this initiative is some £22,000 in 2016/17 and £21,000 in 2017/18 and represents growth in the budget.

(6) Housing (HMO) Licensing – the scheme was budgeted to make a surplus of £108,000 in 2016/17. The revised estimate for the year is however for a deficit of

£71,640 (an adverse variance of some £180,000) – the scheme formally ended in September 2016.

(7) Waste Contract – an additional £54,000 payable and represents ongoing growth.

(8) Business Improvement District (BID) – The Council is picking up the systems, staffing, and running costs incurred in billing and collecting the monies from businesses within the BID area. The Council will also be liable for the levy itself in 2017/18 and beyond. The accounting arrangements for the BID are yet to be finalised.

(9) NHS Clinical Commissioning Group – Original budgeted spend in 2016/17 was £298,000 and this is expected to increase in the year to £651,000.

83. Non Domestic Rates – Appeals and backdated refunds

The uncertainty and volatility around the business rate income, from amended valuations, appeals, continues to have a large negative impact on the 2016/17 accounts. The volatility risk is mitigated to a degree by retaining sufficient reserves. The Council (along with many others across the country) has received a backdated claim for mandatory rate relief for the last 6 years in respect of NHS properties; this amounts to some £4.3m in respect of Hastings. This claim has not been accepted at this stage and the implications of doing so are not included in the revised budget for 2016/17 or for 2017/18.

84. On a very positive note there is additional income/ reduced expenditure in the following areas:

(1) Muriel Matters House (previously Aquila House) – £75,000 p.a. following the purchase. There is an additional £100,000 saving in 2016/17 as no set aside for repayment of debt is made in year of acquisition.

(2) Muriel Matters House – Council chamber let to Coroner's office (Tuesdays)

(3) Town Hall – additional offices let,

(4) Acquisition of Retail Park – Additional income in 2016/17 with no set aside for repayment of debt.

(5) Contracts – inflation in the year slightly below expectations

85. It should be emphasised that in compiling the revised budget there remains some risk to the levels of income expected in the last quarter of 2017/18 e.g. bad weather, Pier claim.

86. Going into 2017/18 the Council needs to maintain a level of reserves that can continue to ensure a managed transition to a much lower level of activity in the years ahead. The Council set aside monies (Invest to Save to support initiatives that achieve real savings or generate income.

87. There remains a limited amount of contingency budget in 2016/17 (£340,000), which could be the first call for legal fees in respect of the Pier and NHS claims.

88. In summary the deficit for the year was estimated to be £881,792 and is now forecast to be £60,526 (net). It is recommended that if there were any underspends at year end these are transferred to the Invest to Save Reserve.

Budget 2017/18

89. The Council's total net expenditure in 2017/18 is estimated at £13.699m (amount to be met from Grant and Collection Fund). This compares to a revised estimate of £14.364m for 2016/17 and represents a decrease in net expenditure of 4.6%.

90. The Revenue Support Grant receivable from the government in 2017/18 of £2,038,000 represents a £797,000 (28.1%) reduction from the 2016/17 settlement. The impact of the settlement in 2017/18 is even more severe given the reduction in New Homes Bonus monies (a reduction of £379,000 (27.3%) from 2016/17).

91. In addition to the reductions in central funding there are a number of costs, other than the expected pay increases and contract inflation, that impact on 2017/18.

    These include :

    i) Waste and Street Cleaning contract – additional contribution of £54,000 p.a.

    ii) Business Improvement District (BID) – The payment of a levy of some £7,000 p.a. and some costs which are not expected to be fully recoverable.

    iii) Business rate revaluation – impact on Council properties as well as the level of business rates retained.

    The national revaluation has led to an increase in the overall rateable values within the borough, but by reducing the rateable poundage (set nationally) the amount to be collected in Hastings decreases. As a result the government have reset the baseline funding level of the Council i.e. how much the Council can retain.

    iv) Apprenticeship Levy - £35,000 (estimate of £50,000 less £15,000 allowance)

    v) Pension revaluation – no cost increase now expected in 2017/18 but a stepped increase over next 3 years totalling an additional £105,000 p.a. by 2019/20.

    vi) Development Control – £67,000 of additional expenditure in 2017/18 largely as a result of increasing staffing resources in this area.

    vii) Insurance costs – increase in insurance premiums in respect of public liability claims and the implications of Insurance Premium Tax increasing to 12%.

    viii) Redundancy costs fall within the year that the decision is made. Additional costs are anticipated in 2017/18 beyond the £175,000 allowed in the base budget. A further £225,000 is therefore being funded from the Redundancy Reserve i.e. £400,000 in total for 2017/18.

92. The estimate of the deficit on the Collection Fund in respect of business rates (largely appeals) is some £232,205 (£638,660 in 2016/17). This is recovered in the 2017/18 accounting period as a charge to the General Fund.

93. The estimated balance on the Collection Fund at 31 March 2017 in respect of Council Tax is a surplus of £232,205 (Hastings BC share), but the estimated deficit of £236,693 (HBC share) in respect on business rates, brings the net deficit to some £4,488. This compares to a £474,067 deficit that was charged to the 2016/17 budget.

94. Savings and some areas of growth have been identified through the PIER process which amount to £735,000 (net) in 2017/18 (Appendices - K and Kii).

95. The PIER saving in respect of the Digital by Design transformation will continue for a number of years as the Council transforms itself. Savings amounting to £62,000 out of the £235,000 originally estimated were included in the 2016/17 budget with the remainder to be achieved in 2017/18.

96. Discretionary Housing Payments – £277,000 was received in 2016/17. The figure is awaited for 2017/18.

97. The use of Invest to Save monies is considered fundamental to assisting the Council in the transformation to a lower spending authority – a business case is required before such money can be used. In February 2016 it was agreed that the use of the monies be determined under delegated powers by the Chief Finance Officer in consultation with the leader of the Council. It is recommended that the use of these sums is again determined for 2017/18 and beyond under delegated powers by the Chief Finance Officer in consultation with the leader of the Council.

98. As a result of inflationary impacts the Council can expect the costs of external service provision to rise e.g. contracts. The Council will need to ensure it reviews specifications closely, as successfully achieved in the cleaning contracts, in order to ensure overall costs do not rise and this may also result in service reductions.

99. The Capital programme is detailed separately in the report. There are aspects of Capital schemes e.g. feasibility studies that cannot be capitalised. These aspects will in the main continue to be funded from capital reserves. Likewise the Council can recover some costs of disposal (revenue costs) from capital receipts when assets are sold. There are some larger studies e.g. White Rock Area where the Council has identified separate revenue resources. One such call on the revenue budget is the cost of marketing in respect of West Marina site and subsequent marketing. This will amount to an additional £30,000 in 2017/18 which is included in the budget.

100. In summary there is an estimated deficit of £546,000 in 2017/18. The savings identified and additional income generated, mean that a balanced budget can be achieved in 2017/18 using some £406,000 of the Transition Reserve, £100,000 from the Economic Development Reserve and £100,000 from the Community Safety Reserve.

Budget 2018/19 and beyond

101. The Council signed up to the government's offer of a 4 year settlement i.e. the four years to 2019/20. The Council's Efficiency Plan was accepted by the government. The benefit of doing so is that there is a degree of certainty on part of the Council's grant funding for the next 3 years – as identified in previous tables.

102. The indicative Revenue Support Grant reductions to be implemented over the period 2017/18 to 2019/20 amount to £2,739,000 (73.5%). In cash terms the funding reduction in 2017/18 amounts to a further £797,000.

103. A deficit of £1.7m is estimated for 2018/19 and a deficit of some £2.1m in 2019/20 – before the use of Reserves (see Appendix G). This assumes a net saving in respect of the White Rock theatre of £370,000 in 2019/20 when the current contract expires i.e. stopping the existing subsidy of some £620,000 but retaining £250,000 within the budget for cultural purposes.

104. The Council needs to achieve a much higher level of Income generation and PIER savings than those currently identified in Appendix K in order to achieve a manageable deficit in 2018/19 and the years beyond. The further transformation of the ways that people deal with the Council and how it works (Digital by Design) remains crucial to achieving further savings. The achievement of these must remain a priority for the Council.

105. To help ensure that the Council can continue to deliver key services at this time it is again proposed that the Transition Reserve be used to help fund services in 2018/19 in the sum of £750,000 and £750,000 again for 2019/20 (if necessary), along with balances from the Economic Development Reserve and Community Safety Reserve. These sums on their own are not sufficient to balance the budgets of the future years (based on current estimates and assumptions). By 2020/21 based on current assumptions the Council will need to achieve a fully balanced budget without the use of reserves.

106. To help ensure that the Council can continue to deliver key services at this time, should there be any underspends these should be used to strengthen reserves – this is a continuing message that will help ensure that key services can continue to be provided as the Council continues its transformation to a self-sustaining Council.

107. In order to address the budgetary issues ahead whilst also looking to improve the customer experience, it is recommended that the Priority Income and Efficiency Review process (PIER) continues.

Council Tax

108. The Council has a record of lower than average tax increases.

Year	Hastings BC Tax Increase	National Average Increase	Hastings BC Council Tax Band D (£)
2004/05	4.5%	5.9%	196.44
2005/06	3.8%	4.1%	203.86
2006/07	2.4%	4.5%	208.75
2007/08	3.5%	4.2%	216.06
2008/09	3.5%	3.9%	223.62
2009/10	3.5%	3.0%	231.45
2010/11	1.9%	1.8%	235.85
2011/12	0%	0%	235.85
2012/13	0%	0.3%	235.85
2013/14	0%	0.8%	235.85
2014/15	0%	0.9%	235.85
2015/16	1.9%	1.1%	240.33
2016/17	2.1%	3.1%	245.33

109. In considering any Council Tax increase in 2017/18 because of the fact that the Council Tax Base has decreased (due to the Council Tax Support Scheme and the government now paying grants to individual councils) 1% on the Council Tax will equate to around £62,800.

110. It is again open to the Council to increase Council Tax for 2017/18. The threshold to trigger a local referendum in 2017/18 is 2% or above as well as an increase that is greater than £5 for a Band D property.

111. The Council is unable to fully determine the Council Tax liability until the precept requirements of East Sussex County Council (ESCC), the Police and Crime Commissioner, and the East Sussex Fire Authority are known. The draft Council Tax figures in the appendices show an indicative 2.04% (£5 on a Band D property) increase for Hastings BC and a 1.98% increase plus an extra 2% for ESCC in respect of the Social Care Levy, 1.94% for the Fire Authority and a £5 (3.47%) increase for the Police and Crime Commissioner - Appendix M.

112. Council Tax is at £245.33 (Band D – Hastings BC element) and a 2.04% (£5 for a Band D property) increase in 2017/18 would take this to £250.33.

Capital Receipts

113. A number of revisions to the programme have been made to take account of changing circumstances. Appendix L provides the profile of programmed receipts. In addition to the sites listed, opportunities for other asset sales and disposals continue to be explored.

114. Given the income generation options that are to be brought forward, disposal of the major sites will not now be undertaken without first assessing whether they are of interest for development by the Council itself or a wholly owned Council company. Such a policy does have big implications for the Council in that more schemes within the Capital programme will need to be financed by borrowing if materially delayed – with the ongoing consequences for the revenue account.

115. As ever it remains imperative that the Council maximises its capital receipts. Failure to do so will necessitate curtailment of the already limited capital programme given the costs of borrowing. The additional costs of borrowing fall directly on the revenue account in terms of interest payments and annual contributions towards the repayment of the principal (i.e. Minimum Revenue Provision (MRP)). If there are invest to save efficiencies then these costs may be offset. Appendix E identifies the capital financing requirement over the life of the capital programme – it does not include the implications of any major income generation schemes.

116. It should be noted that capital receipts can generally only be used for capital purposes. It is recommended that asset disposals be brought forward if market conditions make it sensible to do so.

Capital Programme

117. The capital programme analysed by service is attached (Appendix P).

118. The proposed programme satisfies the requirement that schemes meet the following criteria:-

Contribute towards achieving the Council's corporate priorities and one or more of the following:-

a. be of a major social, physical or economic regeneration nature,

b. meet the objective of sustainable development,

c. lever in other sources of finance such as partnership/lottery funding or provide a financial return for the Council,

d. is an "invest to save" scheme and reduces ongoing revenue costs to assist the revenue budget.

119. There is a need to maintain the property portfolio in order to avoid higher maintenance costs and declining assets in future years. This is vital where the Council’s commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area in a period of economic uncertainty - and also given the increase in competition for tenants. To this end the Council has continued to refurbish industrial units. Likewise for the economic vitality of the town it is important that infrastructure remains well maintained. To this end the sum of £50,000 p.a. within the Capital programme is retained for public realm enhancements.

120. Whilst the capital programme had been significantly reducing, albeit opportunities are still being sought for funding e.g. application to be resubmitted to the Heritage Lottery Fund in respect of the Castle, this has not been the case in 2016/17. The purchase of Muriel Matters House and the Retail Park plus completion of the BD food factory has resulted in some £13m of expenditure and a near doubling of the Council’s borrowing requirement.

121. The level of Disabled Facility Grant (DFG) funding for 2016/17 was £1,407,000 and was advised on 10 February 2016. Figures have not yet been advised for 2017/18. The funding is from the Better Care Fund and paid to the Council from East Sussex County Council rather than directly by the government. The capital programme will be revised once figures for 2017/18 are advised. On a national basis funding for DFG's increased from £220m in 2015/16 to £394m in 2016/17. It is set to increase to £500m by 2019/20 but the government have provided no indicative figures beyond 2016/17. This is a capital grant and can be used for DFG purposes only. The budget is not currently being fully committed – the projected underspends are being transferred to a new earmarked reserve.

122. The schemes included within the capital programme for 2017/18 are the Coastal Space (partnership with Amicus Horizon) - £875,000 grant for a further 30 properties, Pelham Crescent Arcade and roadway, Public Realm, Groyne repairs, Castle Access, and continuation of the Empty Homes programme.

123. There are two schemes where additional funding may be required following initial investigations – namely Pelham Crescent roadway, and upgrading car parking machines and signage. Separate reports will be required to Cabinet at a future date if additional funding is to be made available.

124. The Council approved in late 2016 the purchase of a parcel of industrial land. This has recently completed and proposals will be forthcoming for potential development. No allowance for this is made within the capital programme and as such will be the subject of a further report. Likewise a report on redevelopment at York Buildings will be forthcoming shortly.

125. The schemes remaining in the capital programme for 2018/19 and beyond are in respect of groyne refurbishments (£35k), Public Realm (£50k) and the Empty Homes programme (£70k), Coastal Space phase 3 and Sea Defence works (externally funded).

126. The capital programme in summary (net of external funding) amounts to:-

	Revised 2016/17 £'000s	2017/18 £'000s	2018/19 £'000s	2019/20 £'000s
Gross Capital Expenditure	17,364	5,795	2,681	1,128
Net Capital Expenditure	15,379	2,118	864	116
Financing from own resources	2,154	1,243	864	116
Borrowing Requirement	13,225	875	0	0

127. In terms of net cost, the 2016/17 programme has been revised to £15,379,000 from £7,929,000. The 2017/18 programme amounts to £2,118,000 (£5,795,000 Gross).

128. The draft capital programme shows the status of the schemes

c denotes schemes which are committed
n denotes schemes that are new
u denotes schemes which are in the programme but as yet uncommitted

129. It is proposed that schemes marked with an asterisk proceed without further reference to Cabinet or Council.

Capital Programme - Incremental Impact on Band D Council Tax

130. In determining the affordability of new capital proposals the Council is required to consider the incremental impact on the Council Tax for future years. The impact is expressed in Band D equivalent amounts on the Council Tax. The purpose is to give the Council the opportunity to consider options for capital proposals and to highlight the potential future financial burden of capital investment decisions.

131. Where the programme is financed by capital receipts, reserves, external grants and contributions with limited borrowing the impact on the revenue budget at a time of low interest rates is relatively small. Details of revenue cost implications are highlighted in Appendix E, but in short the Council's capital programme remains affordable for 2017/18.

Minimum Revenue Provision (MRP)

132. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

133. The Council is required to make a "Prudent Provision" which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision. The MRP for 2017/18 is estimated at £831,669 (excluding any notional figures for leasing arrangements).

Reserves

134. The Local Government Act 2003 (Part 2) requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required when setting the annual budget. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual councils and potential liabilities that they face or may face in the future i.e. a risk based approach.

135. The strategic reasons for holding reserves are:-

a. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

b. A contingency to cushion the impact of unexpected events or emergencies

c. A means of building up funds to meet known or potential liabilities (provisions are used for liabilities with uncertain timings or amounts). Such reserves are referred to as Earmarked reserves.

d. To assist in the transition to a lower spending Council

e. To provide the Council with some resources in future years to meet corporate objectives particularly in the areas of economic development and community safety.

136. The Council maintains a working balance in accordance with (a) above in the sum of £500,000. In respect of (c) above there is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area. The full renewals and repairs programme is attached in Appendix J.

137. The estimated reserves position, as at 31 March 2017, is shown in Appendix H. As an absolute minimum, the combined level of the Capital Reserve and General Reserve should be £5m i.e. the non- earmarked reserves. This is the same as in 2016/17 and reflects the more difficult funding regime, as well as the experience of the last year which has seen financial claims being made against the Council e.g. pier claim, land charges, and the mandatory rate relief claim in respect of NHS properties. This level is required to be maintained to cover unexpected expenditure, e.g. emergencies, potential over runs of gross expenditure and further down turns in income sources, and was arrived at as follows:-

(i)	10% downturn in income (sales, fees, rents, etc)	- £1m
(ii)	5% over run in expenditure (including capital)	- £2m
(iii)	Unforseen events/losses	- £2m

138. In addition, given the economic environment and all the uncertainties described elsewhere, it is prudent to maintain the two reserves at a figure above the absolute minimum and wherever possible increase the level of reserves. Any under spends in the year must be considered as opportunities to strengthen the reserves and improve services for the future – given the funding uncertainties.

139. A new earmarked reserve has been established for unspent Disabled Facility Grant monies. These are capital grant monies from the government and cannot be used for revenue purposes.

140. The Council's earmarked reserves are reviewed at least twice a year for adequacy. If at any time the adequacy is in doubt the Chief Financial Officer is required to report on the reasons, and the action, if any, which he considers appropriate.

141. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to members on the robustness of the estimates and the adequacy of the reserves when considering the budget and Council Tax. It is the view of the Assistant Director - Financial Services & Revenues that the processes followed and the information systems used are sound and that the regular reporting and

involvement of senior managers in managing budgets provides sufficient assurance that the resultant estimates are as robust as present economic circumstances allow and that the reserves are currently adequate.

Consultation

142. The draft Corporate Plan and Budget is the subject of consultation (from Friday 13 January 2017). The closing date for comments (Friday 10 February) is after the dispatch of this agenda and therefore any further comments received will be reported verbally to Budget Cabinet on 13 February. Comments received from the business community, voluntary and community sector organisations and the Overview and Scrutiny Committee meeting are to be included within the Corporate Plan report elsewhere on the agenda.

143. The full Council meets to set the budget on 22 February 2017.

Equalities and Community Cohesiveness

144. The equalities implications of the proposals included in the draft budget and corporate plan are set out in Appendix K2. Members are reminded that they are under a duty to give due regard to considerations of equality when making decisions regarding the Budget and Corporate Plan, (Equality Act 2010). As with the consultation feedback set out above, if any information is submitted as part of the consultation which requires a revision of this assessment, this too will be made available to Members at the Budget Cabinet meeting.

Risk Management

145. Numerous risks are highlighted in this report, and further comment is made below. The risks include reduced government funding, enhanced demand for Council services, delays in asset disposals. There are continuing risks surrounding the funding and employment of staff delivering housing benefits over the next few years. To balance the budget the Council has had once again to seek efficiency savings, review the capital programme, review fees and charges, and make cuts in services and grants. It will need to further prioritise its objectives and identify where it would need to make savings to balance the budget in 2018/19 and beyond.

146. Given uncertainty in the economic outlook and the continuing reductions in government funding the Council needs to preserve and enhance where possible the existing level of reserves – this report makes strong recommendations for doing so based on future funding projections. The Council also needs to ensure that it continues to invest in its people, its IT services and its commercial assets.

147. The Council seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, identify income generation opportunities and ensure that potential savings are monitored and achieved.

148. The Council maintains risk registers for corporate risks and for individual services. These continue to be updated and reviewed on a regular basis and steps are taken to mitigate the risks wherever possible and practical. The transition to a lower spending Council, by joint working, and reduced staffing levels also poses additional risks.

Key financial risks to the Council in future years include:-

(i) Business Rates retention – volatility in income streams arising from both local and national economic pressures, the level of successful rating appeals, and collection rates.

The Council continues to rebut a backdated claim for mandatory rate relief in respect of NHS properties amounting to some £4.3m for the last 6 years. If the claim were ever to be accepted the ongoing loss of revenue would amount to an estimated £776,000 p.a. of which Hastings would pick up 40% (£310,000 p.a.). The Council's share of the £4.3m would amount to some £1.7m (40%). The Local Government Association are coordinating support i.e. providing Counsel's advice on behalf of the hundred plus local authorities potentially affected. In the meantime the minimum level of Reserves that the Council has needs to be maintained.

(ii) Income Generation (including the preservation and enhancement of existing schemes)

The Council is seeking to grow its income streams considerably. New initiatives need proper and effective governance arrangements and business cases will need to be robust. Due diligence needs to be thoroughly undertaken, often under restricted timescales, along with financial and taxation implications. The employment of the Income Generation Manager should help the Council to identify and progress viable schemes – thus helping to reduce the risk of unbalanced budgets in future years. There will however be considerable pressure on existing staff and prioritisation will be required.

The potential impact on the authority should things go wrong needs to be considered prior to the approval of individual schemes, along with potential exit strategies.

It also remains of critical importance that budget managers retain sufficient capacity to manage their services and the budgets delegated to them when new initiatives are being implemented. Careful monitoring and regular review of existing initiatives is also required e.g. selective licensing, social lettings agency.

(iii) Joint working/ shared services. The Council has achieved significant annual savings as a result of the joint procurement exercise for waste collection and street cleaning services and also for grounds maintenance services, building control, procurement, and financial systems. It remains very important for the authority that the joint working is successful if the delivery of the savings is to be achieved.

(iv) Staffing / Knowledge Management. The loss of key staff through early retirement or redundancy.

(v) Welfare Reform (Universal Credit and Council Tax Support). There is a significant financial risk of increased Council Tax support payments being made in the year should the economy falter– the financing risk falling on the Council. The scheme approved is for a further period of one year to March

2018. The Council will consider a new scheme for 2018/19 with all the implications this has on the local community and the Council in devising the scheme. The stepped roll out of Universal Credit continued on the 14 December 2016 with all new working age claimants being moved across as against just single claimants. According to the DWP timetable the transfer of existing claimants to Universal Credit is expected to be completed by 2022.

(vi) Restructuring Costs. In order to make savings of the magnitude required in the future, the Council will need to further reconsider what services it can provide and to what level. The continued transformation and digitalisation of services continues and further restructuring seems inevitable. Voluntary and/or compulsory redundancies have large financial consequences for the authority, both in terms of direct payments but also generally on the Pension Fund - in addition to the effect on the capacity of the organisation and knowledge management implications. The Council established a Redundancy Reserve as part of the budget setting process in 2011/12 which has been added to when possible (balance at 31 March 2016 was £648,000). The intention will be to meet any additional redundancy costs from either the existing 2017/18 provision or the redundancy reserve. The reserve assists in transforming the Council to a lower spending organisation in the years ahead.

(vii) PIER savings. The identification of new, and realisation of already identified, savings will be critical for the Council to achieve a sustainable budget in the future.

(viii) Treasury Management – borrowing costs, investment security and level of returns.

(ix) Potential Liabilities

(i) The Council is currently involved in a legal claim following the closure of the Pier in 2006 – which may see the question of costs being resolved shortly.

(ii) Additional costs could arise from the cliffs surveys once clearance and repair work commences - which would impact on the Renewals and Repairs reserve in the first instance. The costs of the work have been reprofiled.

(x) The Economy. The economic and financial uncertainty surrounding Brexit will be a major risk for some years. The Council relies upon its income streams to provide services. Inflationary pressures having eased over the last few years look set to increase and will have real implications for the Council given the continued reductions in funding.

(xi) New Legislation – changes in the HousingAct, changes in the waste directive on recycling targets for example are all likely to impact on the Council's activities over the next four years.

Economic/ Financial Implications

149. The report supports the alignment of corporate priorities with available resources, produces a robust and balanced budget for 2017/18 (albeit with significant use of reserves). There are a number of projects forthcoming within the capital programme to assist the continuation of the regeneration of Hastings.

150. The financial implications in 2017/18 and beyond are detailed in the report. However, significant further action by the Council will be required to produce a sustainable budget beyond 2018/19 and this may result in more job losses.

151. The economic regeneration of the town remains a key priority for the Council. The ability to work with partners to help stimulate the local economy continues but will be seriously reduced in the future with the reductions in our funding. However in the short term the Council established some limited reserves for economic development and for community safety as a means of ensuring the Council can continue to make a contribution to the regeneration of the town over the next few years. These are being used to support the budget in 2017/18 and beyond.

152. The continued reduction in government funding and public sector jobs along with the reduction in the Council's spending power could have a negative effect on the local economy.

Organisational Consequences

153. There is a loss of a number of posts and the organisation seeks to minimise the impact on Council services through efficiencies. There will inevitably be consequences from time to time as this process continues given the substantial savings the Council is required to make. The Council seeks to minimise the impact wherever possible through redeployment and voluntary severance.

Anti-Poverty

154. The Council took the decision to retain the Council Tax Support scheme in its existing form in December 2016 and hence help protect some of the more vulnerable households in the community.

Equalities and Community Cohesiveness

155. An assessment of equality impacts is set out in Appendix K2 and will be considered as part of the consultation process.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Policy Implications

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

Equalities and Community Cohesiveness	Yes
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	Yes
Anti-Poverty	Yes

Additional Information

The Appendices and supporting documents are also available from the Council's website under the heading of Hastings Borough Council budget
http://www.hastings.gov.uk/decisions_democracy/transparency/budgets_finance/

Officer to Contact

Peter Grace
pgrace@hastings.gov.uk
01424 451503