Report to: **Budget Cabinet**

Date of Meeting: 12 February 2018

Report Title: Revenue Budgets 2017/18 (Revised) and 2018/19, plus Capital Programme 2018/19 to 2020/21 (Updated for Final settlement)

Report By: Peter Grace

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

Purpose of Report

1. This report presents the revised revenue budget for 2017/18 and a budget for 2018/19. The revised budget for 2017/18 takes account of the known variations to expenditure and income streams that have occurred since setting the budget in February 2017.

2. This report has been updated since going out to consultation and following the receipt of the final government grant settlement on the 6 February 2018.

3. In setting the budget for 2018/19, 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 2018/19 although this involves using £1,039,000 of reserves built up for this purpose. The forecast deficit for 2019/20 is some £1,036,000, in 2020/21 it is £1.9m, and in 2021/22 it is £2.4m. The alignment of the Council's available resources to its priorities requires the achievement of additional income streams and the continuing review of services during the next 12 months in order to achieve balanced and sustainable budgets in the years beyond.

4. The Cabinet meeting on the 12 February is a key part of the budget setting process. The full Council meeting on the 21 February 2018 is 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 2018/19 of 2.99%.

5. Please note that the final grant settlement figures from government were received on 6 February 2018 (after the report to budget Cabinet was produced and circulated) . The figures have yet to be received for Disabled Facility Grants. Once received adjustments will be made to the figures detailed in this report. Precepts will also be updated as and when final figures are received from the Police and Crime Commissioner, ESCC and the Fire authority.

Recommendation(s)

Cabinet recommend to full Council to:-

(i) Approve the revised revenue budget for 2017/18 (Appendix A).

(ii) Approve the draft 2018/19 revenue budget (Appendix A)

(iii) Approve a 2.99% 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 £6m (plus General Fund Balance) i.e. an increase of £1m from 2017/18.

(v) Approve the Capital Programme 2017/18 (revised) to 2020/21 (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 Chief Finance Officer 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) through the Strategic Budget Group 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 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).

(xii) Approve that the budget be amended as necessary to reflect the final grant figures including Disabled Facility Grants.

(xiii) Approve an increase in the Council Tax premium chargeable for long term empty properties to 200% (from 150%), subject to the required legislation being in place along with sufficient time to undertake annual billing.

Reasons for Recommendations

1. Major reductions in funding in 2018/19 are set to continue into 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 65% 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. The potential downside risks of Brexit and the increased reliance on income streams provide further potential volatility to the Council's future funding.

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 2018/19 and beyond.

Introduction

1. The Chancellor's November 2017 autumn budget identified that the real term reductions in local government funding would continue. Total public sector net debt amounted to £1.70tn in October 2017 (87.2% of GDP – an increase of £147.8bn compared to October 2016. 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. 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 2017 forecast that there would be a deficit in 2017/18 of some £555,000, and £1,676,000 in 2018/19. A balanced budget for the two years being achieved by using limited amounts of the Council's reserves. The position had improved in 2017/18 following in-year initiatives such as the purchase of the Bexhill Road retail park, service transformation work and an

improvement in the Social Letting Agency's position. However the Council is having to make provision for legal costs from the Pier claim. The deficit now forecast for 2017/18 is some £434,000 (the precise amounts of the legal claim costs are not yet known).

4. For 2018/19 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 £1,039,000. 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.

5. The Council accepted the government's 4 year settlement offer last year. This results in a reduction in the Settlement Funding Assessment for Hastings BC in 2018/19 of some 6.8% or £381,000. The Revenue Support Grant decreases by £496,000 or 24.3% to £1,542,000. With the level of government grant continuing to decrease at such significant levels the Council will need to make further substantial savings, generate income, or both, in order to produce sustainable balanced budgets in the years ahead.

6. 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. However, the Council will need to further prioritise its full resources, at least for a while, on areas that generate or will generate additional income or where costs can be reduced or activities cut or postponed. Staff resources will need to be redirected.

7. It should be noted that the budget does now include the anticipated increases in expenditure (both Capital and Revenue) and increases in income that will arise during the year as income generation schemes are realised. The projections for the income achievable from energy initiatives have been reprofiled but remain very ambitious nonetheless.

Strategic Priorities

8. 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 2018/19.

9. 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

10. The Medium Term Financial Strategy, approved in November 2017, provided indicative budget forecasts for the 5 year period 2017/18 to 2021/22.

11. 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.

12. 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 2017 gives a 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

13. 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 2018/19 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.

14. The business rate, itself, is set by the government with regard to the change in the Retail Prices Index. The proportion retained in Hastings is 40% (9% is payable to ESCC, 1% to the Fire and Rescue Authority and 50% to the Government).

15. In order to project business rate income account is taken of planning approvals for new commercial buildings and for change of use to residential and an allowance is made for the likely reductions due to successful appeals against rateable values. Businesses see no difference in the way the tax is set. Rate setting powers remain under the control of central government and the revaluation process remains the same – save for a new revaluation every three years.

16. Under the scheme 50% of business rates is localised through a system of top-ups and tariffs that fix an amount to be paid by high yield authorities and distributed to low yield authorities – this amount being increased annually by inflation (CPI). Local authorities retain a proportion of all business rate growth or conversely experience a reduction in resources if the business rate base declines.

17. The 50% central government share is distributed through the formula grant process – thus enabling the government to control the overall amount received by local authorities. Where there is disproportionate growth this will be used to provide a safety net for those authorities experiencing little or negative growth and allow the treasury to top slice business rates income. A reset mechanism is in place with the first reset in 2020/21 (expected to be overtaken with the Fair Funding review). The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

18. The changes increase the level of instability in the forecast of resources and the interaction with economic growth or decline will increase the associated risks. A decline in an industry within the borough could result in both a decrease in the business rate base and an increase in demand for Council Tax support – both increasing Council costs.

19. The government after determining the business rates baseline levels included small business rate relief within its own budget proposals. This effectively reduced

Councils' income. The government is reimbursing authorities for this lost income which is now estimated to amount to some £900,715 for Hastings in 2017/18 and some £1,113,725 in 2018/19.

20. The rateable value (RV) of business properties at the start of the 2018/19 year is forecast to be some £62.7m. However given the level of appeals, forecasting income levels for 2018/19 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.

21. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council will collect some £21.1m of which the Council share is some 40% (£8.37m in 2018/19). 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 £5,500,927 in 2018/19. The estimate of the business rate income collected that will be retained by the Council in 2018/19 amounts to £2,756,000.

22. 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.

23. The Business Rates Pooling arrangement within East Sussex will recommence on 1 April 2018. This has followed due consideration as 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. The latest estimate is a £57,589 p.a. benefit to the Council.

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

24. The 2018/19 provisional finance settlement was announced on 19 December 2017 with the final settlement figures being received on the 6 February 2018. 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	£5,216	-£389	-6.9%	-27.5%
2019/20 (Est)	£4,743	-£473	-9.1%	-34.1%

25. 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 £496,000 in Revenue Support Grant in 2018/19, 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	£1,542	-£496	-24.3%	-£2,185	-58.6%
2019/20 (Est)	£988	-£554	-35.9%	-£2,739	-73.5%

26. The Council will no longer receive any Transition Grant funding in 2018/19 (£5,493 in 2017/18).

27. Discretionary Housing Payments (DHP's) play a vital role in supporting a lot of people affected by the welfare changes. The grant figure for 2017/18 amounted to £412,154. The figure for 2018/19 is £381,729 i.e. a reduction of £30,425. This funding will be fully subscribed.

Summarised Grant Position

28. The level of grants received from the government between 2010/11 (the year before the previous Comprehensive Spending Review) and 2018/19 have decreased by some 69% 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).

29. **In 2018/19 the Council will lose £496,000 in Revenue Support Grant. New Homes Bonus is some £359,000 less than in 2017/18 as detailed in the report and is set to fall further. These two grants losses alone amounting to some £855,000. 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**.

Fair Funding Review & Business Rates Retention

30. The government have issued a consultation paper on the future funding mechanism – the Fair Funding Review. The consultation lasts for 12 weeks form 19 December 2017 to 12 March 2018. The Communities Secretary also confirmed the government's aim to increase business rates retention for all local authorities in 2020 to 2021 to help meet the commitment to give local authorities more control over the money they raise locally.

31. This review will calculate new baseline funding levels based on an up-to-date assessment of the relative needs and resources of local authorities. Business rates will be redistributed according to the outcome of the new assessment, alongside the resetting of business rates baselines, subject to suitable transitional measures.

32. The government wants local authorities to retain 75% of business rates from 2020 to 2021. This will be through incorporating existing grants into business rate retention including Revenue Support Grant.

Income Generation

33. 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.

34. The Council has stepped up the level of income it is receiving from property and is looking to diversify its income streams further through the housing company and from energy. The table below highlights some of the more recent acquisitions and initiatives that have either generated or saved money and will go a little way to meeting the massive funding reductions the Council is experiencing and thus helps to protect services.

Location	Income	MRP and Interest	Net Additional Income
	£	£	£
Muriel Matters	321,000	220,800	
MM Shops	41,000		
Totals	362,000	220,800	141,200
Town Hall	97,000		97,000
Sedlescombe Rd North	460,000	294,613	165,387
BD Food Factory	40,000	91,488	- 51,488
Sea Front Kiosks	7,900	0	7,900
Bexhill Rd Retail Park	543,000	356,660	186,340
Property Fund	80,000	0	80,000
Totals	1,589,900	963,561	626,339

35. Given the Council's need to generate significant levels of new income if services are to be protected, an income generation strategy was agreed in September 2017. The Council's income generation plans involve both capital and revenue expenditure.

36. 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.

37. The Council agreed at its Cabinet meeting on 11 September 2017 to spend £50m on Commercial Property, Housing and Energy initiatives over the next 3 years. These initiatives are intended to support key priorities within the Corporate Plan e.g. economic, regeneration, housing and sustainability, provide additional income streams, or both.

The table below highlights the proposed Capital spend

	2017/18	2018/19	2019/20	2020/21
	£	£	£	£
Commercial Property	9,000,000	20,000,000		
Housing	1,500,000	5,000,000	5,000,000	3,500,000
Energy		2,000,000	2,000,000	2,000,000
Total	10,500,000	27,000,000	7,000,000	5,500,000

38. The table below shows the additional income projections for the main initiatives. In addition £2m was invested with a Property Fund (CCLA) in April 2017. The income projections continue to be refined, particularly around energy with £80,000 of net income being allowed for in 2018/19 budget estimates compared to the £280,000 in the Income generation strategy projection.

Additional Income Generation Projections	**2017-18 Revised Budget**	**2018-19 Projection**	**2019-20 Projection**	**2020-21 Projection**	**2021-22 Projection**
(Cabinet 11 September 2017)	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Income Generation - Commercial Property	(92)	(373)	(570)	(576)	(576)
Income Generation - Housing Company	(20)	(60)	(147)	(200)	(200)
Income Generation - Energy		(280)	(540)	(540)	(540)
Total	(112)	(713)	(1,257)	(1,316)	(1,316)

39. Given the funding gap that remains, the Council will need to consider its appetite for further risk involving income generation and its ability to identify further efficiencies or reductions in services.

Fees and Charges

40. The Council has limited reserves and remains reliant upon income streams and investment returns to balance the budget. 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.

41. With a number of exceptions, fees and charges have generally been increased by a minimum of the retail price index - except where set by statute, or in line with

market fees. 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 it remains unclear as to when the revision of the statutory charges will apply. The government have announced that fees can be increased by 20% as long as the additional resources are retained in planning – the details are awaited.

42. Car parking charges were last increased in February 2017 for a 12 month period (increases were applicable from 1 April 2017). The Council has experienced a significant increase in business rates on some of its car parks following the 2017 national revaluation and the phased increases will continue. 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 be conducting a condition survey of the Priory Street car park during 2018, with the potential of significant additional expenditure in 2019/20 and beyond in order to substantially extend its future life. Whilst there are considerable cost pressures the economic vitality and attractiveness of the town remain a key priority for the Council and no increases in charges are proposed for 2018/19.

Investment and Borrowing

43. Base rates increased in 2017 to 0.5% from their previous level of 0.25%. Given the restricted counterparties list and short investment periods, investment returns of around 0.5% (excluding property funds) are predicted in 2018/19. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

44. The Council has had additional borrowing requirements in 2017/18 to finance 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

45. This had 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 November 2017 it was 3.9% (Retail Price Index) whilst the government’s preferred measure CPI (Consumer Price Index) was 3.1%.

46. Inflation, according to the Bank of England inflation report is expected to be at or around the 2% target in the next two years.

47. Based upon the above projections, general inflation is being estimated at 2% overall for 2018/19 and beyond. However, only contract inflation is 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

48. The figures in the Medium Term Financial Strategy assumed a 1.5% increase for 2018/19 and 2%beyond. In addition there are contractual increments (equivalent of around ½%). Since then a headline offer of 2% for each of the next 2 years has been made by the employers. The rate is higher for those on lower grades. Some 71 staff at the Council would receive more than the 2%. Nationally the settlement is assessed as being between 2.7% and 2.8% p.a. (It is understood that the offer has not been accepted)

49. The salaries budget together with national insurance and pension costs amounts to some £11.2m in 2017/18. The costs are estimated to increase by some £250,000 in 2018/19.

50. The Council remains committed to paying the accredited living wage (£8.75 per hour for over 18's), which is significantly higher than the national minimum wage of £7.05 per hour for under 25's, and the new national living wage for over 25s of £7.50. The pay settlement makes proposals for pay scales to be amended reflecting the effects of the higher increases at lower pay scales.

Council Tax Reduction Scheme

51. 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 in 2016/17 and 2017/18, and the same again for 2018/19 (Full Council in December 2017).

52. 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 in the numbers seeking assistance and this has resulted in fewer discounts being granted. This reduction impacts positively on the calculation of the Council Taxbase.

53. 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 2018/19, and is doing so in conjunction with neighbouring authorities.

Universal Credit & Benefit Administration Grant

54. 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 2018/19. 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.

55. 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 is becoming better understood and necessitates changes to the Council Tax Support scheme if the Council is not to be engulfed in numerous change of circumstance requests. It should be noted that the final stage of converting the stock of existing working age Housing Benefit claims onto Universal Credit is still some years away – to be completed by 2022. However there appears to be no immediate plans for the transfer of pensioners or the more complex cases away from Housing benefit – which could see the Council retaining some 40% of cases.

56. The Department for Work and Pensions (DWP) are providing additional funding to the Council in 2018/19. Some of this will be required to fund external support organisations 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.

57. The Benefit Administration Grant for 2018/19 has been reduced to £420,606 (from £460,841) – a loss of £40,235 (8.7% reduction). Please note the Council Tax Support Grant has been separated out from the Benefit Administration Grant line (see Appendix 1).

58. The level of Council Tax Support Administration Grant receivable in 2018/19 has now been notified at £166,913 (£178,405 received in 2017/18). This represents a reduction of £11,492 (a 6.5% reduction).

59. 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 - Empty Homes Premium

60. From April 2013, billing authorities in England took on an additional power over certain Council Tax discounts.

61. The government is keen to encourage owners of empty homes to bring their properties back into use. To help achieve this, local authorities will be able to increase the council tax premium from 150% to 200%.The County Council, Police and Fire Authority who are all experiencing funding pressures would also benefit. It is recommended that the percentage be increased to 200% from 1 April 2018.

62. Based on current numbers the estimated additional net income to Hastings BC is some £10,000 p.a. If however the policy succeeds the level of income will naturally be less.- although this would offset pressures elsewhere.

Pension Fund Contributions

63. 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 was undertaken in 2016 with revised contribution rates becoming payable from April 2017.

The rates currently payable by the Council consist of the primary contribution rate plus 0.75% for future ill health retirements (these are percentages of salaries of staff in the pension scheme) plus a lump sum (secondary rate), namely:

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%)

64. The above lump sum figures represent growth of £51,000 in 2018/19, and further growth of £54,000 in 2019/20. The rates are expected to be more stable in the years beyond 2020/21and no increase has been allowed for above and beyond the percentage pay increases.

Grants

65. 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 few 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).

66. 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),

67. Most of the bids made have been successful and the resultant regeneration work within Hastings remains significant.

68. Of significance is the monies paid to the Council from the Clinical Commissioning Group (CCG) for various joint initiatives which are included in the Council's budget (some £1.7m in total over the next few years). It should be noted that this inflates the Council's net expenditure figures (the funding is included in transfers from reserves).

New Homes Bonus

69. 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 2017/18 amounting to £1,008,963.

70. 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 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 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.

71. The Council Tax Base return (CTB 1 in October 2017) identifies that the number of new properties completed and the number of long term empty properties brought back into use (net) amounted to some 292 properties (some 243 band D equivalent properties), which results in income amounting to some £142,362 for 2018/19 .

72. The table below shows the New Homes Bonus receivable by the Council in 2018/19 and estimates for future years.

73. Table: New Homes Bonus

Year	2017/18	2018/19	2019/20 (Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)
	£	£	£	£	£	£
Year 1						
Year 2						
Year 3	119,097					
Year 4	382,670					
Year 5	119,542	119,542				
Year 6	382,055	382,055	382,055			
Year 7	5,600	5,600	5,600	5,600		
Year 8		142,362	142,362	142,362	142,362	
Year 9			100,000	100,000	100,000	100,000
Year 10				100,000	100,000	100,000
Year 11					100,000	100,000
Year 12						100,000
Total	1,008,964	649,559	630,017	347,962	442,362	400,000

74. The reduction between 2017/18 and 2018/19 is a funding loss of £359,000 – a 36% reduction. Over two years the reduction amounts to some £738,000.

75. 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.

Revised Budget 2017/18

76. The revised 2017/18 total service expenditure budget amounts to £15m, against an original budget of £14.9m (Appendix A). The deficit amounts to some £433,919.

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

1. Property – income is currently higher than original budget estimates as a result of property purchases e.g. Bexhill Road Retail park, where the full year income receivable amounts to some £543,000.

2. Investment income is higher than the original budget following the decision to invest in the Property Management Fund (CCLA). The Council investing some £2m in April 2017).

3. Business rate income remains an area of high volatility and risk. Whilst the level of business rates collected is on target the level of appeals both nationally and locally is a threat that has materialised and as in previous years is impacting significantly on the retained income levels. The Council is receiving a separate payment from the government following the extension to the Small Business rate relief scheme – which effectively reduced the council's income from business rates. This further complicates the picture. Given government changes to the scheme, the Council is no longer having to collect relatively small sums from a number of businesses and is instead reimbursed by the government for the income foregone.

4. A relatively good summer and mild autumn to date has resulted in parking income being more buoyant than projected. Off-Street Parking income is forecast to be higher than originally budgeted by some £100,000.

5. Inflation: The Council allowed around 2% overall for inflation on its main contracts in 2017/18. With some £5m of major outsourced contracts, inflation assumptions remain important for budget planning purposes. Estimates indicate that there will be additional costs of some £93,000 p.a. on major contracts.

6. Council Tax Support Scheme – lower levels of claims continue to be experienced in 2017/18, which results in higher levels of council tax being collected. The caseload is currently 10,193 and represents a decrease of 4.7% from September 2016. Housing Benefit caseload also continues to decrease, now standing at 8,180 – a decrease of 17.6% from September 2016 (the cost of the claims being funded by government in this instance).

7. Since determining the budget in February 2017, the Council's budget has been enhanced by the receipt of a number of grants and additional funding sources, all of which will be matched with expenditure and are not therefore expected to reduce the in-year deficit. Additional funding includes:

    - Flexible Homelessness Support Grant - £451,597 (2017/18) & £519,586 (2018/19)

    - Community Housing Funding - £244,098

    - Clinical Commissioning Group Monies – Total expenditure some £1.728m in period to 2019/20

    - Discretionary Housing Payments £412,154 (2017/18)

    Of the above, some £940,000 is expected to be additional spend in 2017/18 and is included within the revised budget.

8. It is recommended that if there were to be any underspends at year end these are transferred to the Invest to Save Reserve.

Budget 2018/19

77. The Council's total service expenditure in 2018/19 is estimated at £12.8m. This compares to a revised estimate of £15.1m for 2017/18 and represents a decrease in net expenditure of 15.2%. Two key areas account for the majority of the reduction, firstly timing of payments in respect of the Clinical Commissioning group expenditure and secondly provision for legal costs.

78. The Revenue Support Grant receivable from the government in 2018/19 of £1,542,000 represents a £496,000 (28.1%) reduction from the 2017/18 settlement. The impact of the settlement in 2018/19 is even more severe given the reduction in New Homes Bonus monies (a reduction of £379,000 (27.3%) from 2017/18).

79. In addition to the reductions in central funding and New Homes Bonus there are a number of costs, that impact on 2018/19. These include :

i) 2% Pay increase (est)

ii) Pension increase

iii) Interest rate - borrowing rates

iv) Rateable values

v) Redundancy costs fall within the year that the decision is made. Additional costs are anticipated in 2018/19 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 2018/19.

vi) The estimate of the deficit on the Collection Fund in respect of business rates (largely appeals) is some £63,896 (£236,000 in 2017/18). This is recovered in the 2018/19 accounting period as a charge to the General Fund.

80. The estimated balance on the Collection Fund at 31 March 2017 in respect of Council Tax is a surplus of £125,899 (Hastings BC share), but the estimated deficit of £63,896 (HBC share) in respect on business rates, reduces the overall surplus to some £62,003. This compares to a £4,488 deficit that was charged to the 2017/18 budget.

81. Savings and some areas of growth have been identified through the PIER process which amount to £487,000 (net) in 2018/19 (Appendices - K and Kii).

82. Of particular note are the income generation projections, but also the growth areas in respect of Homelessness (plus £156,000) and Policy Planning (plus £61,000).

83. 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 a further £46,000 in 2018/19

84. Discretionary Housing Payments – £412,000 was received in 2017/18. The figure for 2018/19 is £381,729 i.e. a reduction of £30,425.

85. 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 2017 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 2018/19 and beyond under delegated powers by the Chief Finance Officer in consultation with the leader of the Council.

86. 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.

87. 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.

88. In summary there is an estimated deficit of £1,039,000 in 2018/19. The savings identified and additional income generated, mean that a balanced budget can be achieved in 2018/19 using some £839,000 of the Transition Reserve, £100,000 from the Economic Development Reserve and £100,000 from the Community Safety Reserve.

89. In view of the reduced resources available in 2018/19 and beyond the Council must continue to review the level of service it can provide and transform the way it delivers those services. Priority, at least in the short to medium term, needs to be directed towards income generation and balancing the budget.

Budget 2019/20 and beyond

90. 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.

91. The indicative Revenue Support Grant reductions to be implemented over the period 2018/19 to 2019/20 amount to £2,739,000 (73.5%).

92. To achieve a balanced budget in 2019/20 (without using reserves) savings of £1,036,000 need to be identified. This figure reduces to zero after allowing for part use of the Community Safety Reserve(£100,000), part use of the Economic

Development Reserve (£100,000), and a further £836,000 from the Transition Reserve.

93. To achieve a balanced budget in 2020/21 (without using reserves) savings of £1.9m need to be identified. This figure reduces to £1.6m after allowing for part use of the Community Safety Reserve (£100,000), part use of the Economic Development Reserve (£100,000), and what remains by then in the Transition Reserve (£91,000).

94. By 2021/22, the Transition fund would be extinguished completely. The funding shortfall estimated for the year being some £2.4m.

95. The future projections are identified in Appendix G. These estimates assume savings and additional expenditure and will be refined as and when more information is available e.g. once the theatre tenders are received/negotiations are completed.

96. 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 2019/20 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.

97. The reserve 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.

98. In order to address the budgetary issues ahead whilst also looking to improve the customer experience, and join up the major initiatives across the Council, it is recommended that the Priority Income and Efficiency Review process (PIER) be continued.

Council Tax

99. 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 (£)
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% (£5)	3.1%	245.33
2017/18	2.0% (£5)	4.0%	250.33

100. The tax base for 2018/19 is some 1.94% higher, as a result of additional properties and a significant reduction in the Council Tax Support being claimed. The effect is to increase the tax base from 25,095 to 25,582 (worth some £122,000 p.a. to HBC alone).

101. It is again open to the Council to increase Council Tax for 2018/19. One percent on the Council Tax will equate to around £64,000 of income for this Council.

102. The 2018/19 budget projection assumes a further contribution of £126,000 from the Council's Collection Fund in respect of Council Tax due to a good collection record. However there remains a deficit in business rates income mainly caused by the high level of successful rating appeals. An estimated deficit of £63,000 has currently been included in the strategy but this figure could be amended significantly before the year end.

103. The government announced on the 19 December 2017 that shire district Councils will be allowed increases of less than 3%, or up to and including £5, whichever is higher in 2018-19 and 2019-20 without the need for a referendum. The Council could agree a higher level if a referendum was held that supported a bigger increase.

104. The figures in the appendices (Appendix M) show an indicative 2.99 % increase for Hastings BC and a 2.99% increase for ESCC and 3% in respect of the Social Care Levy (5.99% in total), 2.94% for the Fire Authority and a £12 (7.8%) increase for the Police and Crime Commissioner .

105. Council Tax is at £250.33 (Band D – Hastings BC element) and a 2.99% (£7.48 for a Band D property) increase in 2018/19 would take this to £257.81.

Asset Sales - Capital Receipts

106. 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.

107. 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.

108. 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.

109. 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

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

111. 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.

112. 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.

113. For 2017/18 there will be slippage on a number of schemes, including the Country Park Visitor Building, and the Castle. The overall spend will exceed the original budget estimates following the purchase of Bexhill Road Retail Park, the establishment of the housing company, and approval for York Buildings and the capital contribution to Priory Meadow in respect of the Council's share of capital investment over the next three years (£250,000). Additional land and property acquisitions in the year have also been approved by the Council.

114. There are also substantial calls being made on the Council's resources to fund replacement equipment on playgrounds and maintain sports grounds, pitches and other facilities. An additional £250,000 has been allowed for in the Capital programme to be funded from the repairs and renewals reserve and S106 monies.

115. The purchase of a further Retail Park in 2017/18 plus completion of other capital schemes has resulted in some £13m of expenditure (as at the time of writing) and this figure could increase by the end of the financial year.

116. The level of Disabled Facility Grant (DFG) funding for 2017/18 was £1,543,547 with another £154,000 recently allocated. Figures have not yet been advised for 2018/19. 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 2018/19 are advised. On a national basis funding for DFG's increased from £220m in 2015/16 to £394m in 2017/18. It is set to increase to £500m by 2019/20 but the government have provided no indicative figures beyond 2017/18. 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.

117. The Council approved in late 2016 the purchase of a parcel of industrial land. Proposals for development are in the pipeline, but affordability is an issue. No allowance for this is made within the capital programme and as such will be the subject of a further report once funding options are fully explored.

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

	Revised 2017/18 £'000s	2018/19 £'000s	2019/20 £'000s	2020/21 £'000s
Gross Capital Expenditure	17,027	32,938	8,767	7,162
Net Capital Expenditure	13,145	28,691	7,210	5,623
Financing from own resources	968	1,531	210	123
Borrowing Requirement	12,177	27,160	7,000	5,500

119. In terms of net cost, the 2017/18 programme has been revised to £13,145,000 from £15,310,000. The 2018/19 programme amounts to £28,691,000 (£32,938,000 Gross).

120. 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

121. 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

122. In determining the affordability of new capital proposals the Council has been required to consider the incremental impact on the Council Tax for future years. 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.

123. 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 2018/19.

Investment in Council Assets

124. In protecting the economic vitality of the town, it remains important to maintain the Council's commercial estate in order to maximise occupancy rate and to support the local economy as far as possible. In doing so the Council will be in a position to take advantage of any sustained upturn in the economy in the future.

125. The Council's Renewals and Repairs Fund is reviewed on a regular basis in order to ensure sufficient resources are available to fund necessary works. Planned maintenance is normally cheaper in the long term than reactive maintenance. Additional substantial calls (£400,000 in total) have been made on the fund for works on the cliffs. It is however clear that a further sum of up to £100,000 will be required to address some further immediate concerns (to be addressed within the next 12 months). As such a further £100,000 has been included within the contingency budget, funded from the Renewal and Repairs reserve for 2018/19, but further substantial sums may be required.

Minimum Revenue Provision (MRP)

126. 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.

127. 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 2018/19 is estimated at £1,116,000 (excluding any notional figures for leasing arrangements).

128. 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. For example, an asset that cost £100,000 and has a 10 year life, and that was financed by borrowing, would necessitate putting aside £10,000 in each year (£100,000 divided by 10) to repay the debt.

129. 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. Should the existing financing assumptions alter, and additional borrowing is required, there will be a direct and additional pressure on the revenue budget.

130. The MRP is set to increase substantially in 2018/19 and beyond as a result of additional borrowing, particularly in respect of income generation initiatives. The Council's MRP policy is determined by full Council as part of the Treasury Management Strategy in February for the forthcoming year.

131. The table below identifies the estimated Capital Financing Requirement (CFR) for each of the next four years and the Minimum Revenue Provisions (MRP).

Year	2017/18	2018/19	2019/20	2020/21	2021/22
	£	£	£	£	£
CFR-Opening	29,918,363	37,961,885	64,033,807	69,686,196	75,204,866
MRP	777,978	928,078	1,633,554	1,831,358	2,037,609
CFR Closing	37,961,885	64,033,807	69,686,196	75,204,866	73,577,684

These figures are very much dependent upon the level and timing of capital acquisitions, the level of capital receipts received and the useful life of the assets acquired or constructed. The figures will continue to be reviewed throughout 2018/19 and regularly thereafter, based on the proposed Capital programme, and subsequent changes and timing thereof.

Reserves

132. 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.

133. 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.

134. 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.

135. For the strategy reserves at 31 March 2018 are estimated to consist of:-

General Reserves	Estimated Balance at 31.3.2018 £'000s
Revenue Reserves	7,658
Capital Reserve (Revenue monies)	513
Total	**8,171**

Earmarked Reserves	Estimated Balance at 31.3.2018 £'000s
Renewals and Repairs Reserve	1,492
Insurance & Risk Management Reserve	310
IT Reserve	150
S106 Reserve	404
VAT Reserve (incl. Senior and Youth support &Capital contributions)	207
Government Grant Reserve	424
Revenue Hardship Fund	80
Monuments in Perpetuity	43
Ore Valley	250
Mortgage Reserve (LAMS)	151
Invest to Save and Efficiency Reserve	502
Resilience and Stability Reserve	600
Transition Reserve	1,788
Redundancy Reserve	648
Community Safety Reserve	350
Economic Development Reserve	501
Disabled Facilities Reserve	974
Clinical Commissioning Group	101
Selective Licensing	53
Other reserves	247
Total	**£9,275**

The protection of key services remains of crucial importance to the Council and the Transition Reserve, Economic Development Reserve and Community Safety Reserve has provided the Council with the opportunity to protect some key services and activities into the future e.g. the ability to continue regeneration and attract grant funding to the town remains a key priority. The strategy continues to identify the use of these reserves in 2018/19 and beyond.

136. At 31 March 2018 General and Capital Reserves will amount to an estimated £8.17m, of which some is already committed e.g. empty homes strategy.

137. The estimated reserves position, as at 31 March 2018, is shown in Appendix H. As an absolute minimum, the combined level of the Capital Reserve and General Reserve should be £6m i.e. the non- earmarked reserves. This is an increase of £1m on 2017/18 and reflects the more difficult funding regime, as well as the experience of recent years 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 down turns in income sources, and was arrived at as follows:-

(i) 10% downturn in income (sales, fees, rents, etc) - £2m (Projection)

(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. 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.

140. 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

141. The draft Corporate Plan and Budget being the subject of consultation (from Friday 12 January 2018). The closing date for comments (Friday 9 February) being after the dispatch of the Cabinet agenda and therefore any comments received are reported verbally to Budget Cabinet on 12 February. Comments received from the business community, voluntary and community sector organisations and the Overview and Scrutiny Committee meeting being included within the Corporate Plan report elsewhere on the agenda.

142. The full Council meets to set the budget on 21 February 2018.

Equalities and Community Cohesiveness

143. 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

144. 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. It will need to further prioritise its objectives and identify where it will need to make savings to balance the budget in 2019/20 and beyond.

145. 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.

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

147. 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) **Fair Funding Review & Business Rates retention.**

2020/21 will see the introduction of the 75% retention of business rates and the results of the fair funding review – which may or may not provide additional resources.

Business rates in the meantime continue to present real uncertainties. Volatility in income streams arising from both local and national economic pressures, the level of successful rating appeals, and the collection rates achieved

(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 is helping the Council to identify and progress viable schemes – thus helping to reduce the risk of unbalanced budgets in future years. There remains considerable pressure on existing staff and prioritisation of work 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/ contracts**. The Council had 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.

The early termination of the waste and street cleaning contract provides uncertainty as to future costs. Re-letting of the Waste and Street Cleaning contracts, given the state of the recycling market in particular, could see the costs to the Council increase. An additional £300,000 p.a. is being included within the budget projections for planning purposes from 2019/20 onwards.

The Council does rely on external service providers, it is particularly reliant on IT and software companies. Due diligence on the award of any contracts remains critical to the effective provision of services.

(iv) **Staffing / Knowledge Management.** The loss of key staff through early retirement or redundancy, and in the short term – through illness..

(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 2019. The Council will consider a new scheme for 2019/20 with all the implications this has on the local community and the Council in devising the scheme. Universal Credit arrangements continue to change with more cases, and particularly the more complex cases falling on the shoulders of the Council. According to the DWP timetable the transfer of existing working age claimants to Universal Credit is still 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 2017 was £648,000). The intention will be to meet any additional redundancy costs from either the existing 2018/19 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. The management of the Council's debt portfolio and its assets becomes increasingly important – especially in a rising interest rate environment.

(ix) **Potential Liabilities**

(i) The Council continues to rebut a backdated claim for mandatory rate relief in respect of NHS properties amounting to some £4.3m for a period of 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%). This claim would now be higher given the period that has now elapsed since receiving the claim. 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) Cliffs – Whilst a further £100,000 has been allocated from the renewal and repairs reserve for additional works, further costs could arise once further clearance and repair work is undertaken.

(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 have real implications for the Council given the continued reductions in funding.

(xi) **New Legislation** – changes in the Housing Act, 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

148. The report supports the alignment of corporate priorities with available resources, produces a robust and balanced budget for 2018/19 (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.

149. The financial implications in 2018/19 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.

150. 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 2018/19 and beyond.

151. 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

152. The Council has limited available reserves and has an ambitious corporate plan. To stand a chance of achieving a sustainable budget in the future, priorities must be reassessed and staff must be directed, at least temporarily towards those areas that will generate significant income or significantly reduce costs. 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

153. The Council took the decision to retain the Council Tax Support scheme in its existing form in December 2017 and hence help protect some of the more vulnerable households in the community.

Equalities and Community Cohesiveness

154. 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