Cabinet Agenda

Friday, 19 November 2021 at 2.30 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, East Sussex, TN34 3UY

If you are attending Muriel Matters House for this meeting, please enter the building via the Tourist Information Centre entrance. Members of public are advised that they will need to sign in to comply with health and safety legislation and will be escorted up to the Committee Room.

For further information, please contact Democratic Services on 01424 451484 or email: democraticservices@hastings.gov.uk

This page is intentionally left blank

Agenda Item No:

Report to: **Cabinet**

Date of Meeting: 19 November 2021

Report Title: Medium Term Financial Strategy

Report By: Peter Grace
Chief Finance Officer

Purpose of Report

The Council looks to forecast its financial position over the medium term in order to ensure it can align corporate objectives with available resources.

This Medium Term Financial Strategy (MTFS) seeks to identify the financial risks that will affect the annual budgets for each of the next 3 years, and the anticipated resources that will be available to the Council.

Given that this MTFS identifies that reserves are set to fall below minimum recommended levels mainly as a result of spiralling homelessness costs and other expenditure pressures, this report identifies further in-year savings that can be made, prior to determining the budget in February 2022.

Recommendations

1. **Approve the Medium Term Financial Strategy.**
2. **The Council take the robust actions necessary in this financial year and throughout the 2022/23 budget process to achieve a sustainable budget and maintain the minimum recommended level of unallocated reserves.**
3. **Service costs are reduced in this financial year to contain costs as detailed in Table 1 of this report, and that further savings be made where practicable.**
4. **Full Council to note the action taken and that there is potentially a greater call on Reserves in 2021/22.**

Reasons for Recommendations

The council matches its available resources to its priorities across the medium term. The Council needs to achieve estimated savings of some £3.1m in order to achieve a sustainable budget in 2022-23. In arriving at this figure many assumptions have once again had to be made on future funding, spiralling costs of homelessness, and also the ongoing impacts of Covid-19 on income streams. The estimates will continue to be updated as and when the government announces details of future funding and demand and inflationary impacts are updated.

The report provides the opportunity to assess the council's resources to assist the review of corporate priorities. Given the additional spending pressures in 2021-22 and an increase in the deficit of some £809,000 immediate action should be taken to cut expenditure to preserve reserves at their minimum recommended levels.

The Council has a statutory duty to set a balanced revenue budget each year and this strategy seeks to highlight the major issues (in advance) in order to do so.

Introduction

1. The Medium Term Financial Strategy seeks to provide projections to help inform the Corporate Plan and budget setting processes.

2. Good financial management requires councils to properly plan for the future in order to match longer term ambitions and plans with anticipated resources. At present there are numerous areas of uncertainty which cause problems when seeking to accurately forecast available resources for the years ahead.

3. **Expenditure on homelessness is predicted to rise by £457,000 in this year and by some £931,000 in a full year – based on current demand levels**. Net expenditure on Rough Sleepers is projected to increase by £270,000 in the year and this demand is, if anything, expected to increase still further. The leader of the council has written to advise the Government and seek additional income. In parallel to this action, the Council needs to address the ongoing budget deficits - however difficult this is after 10 years of funding reductions.

4. The Medium Term Financial Strategy seeks to identify the uncertainties that impact on resource levels e.g., government spending review, lack of a fair funding review, replacement for New Homes Bonus, etc. Where possible the MTFS seeks to make an informed view of the likely resource implications. Where there is no clarity as yet, generally, a prudent approach is adopted.

5. The Chancellor announced details of the Spending Review (SR21) on 27 October 2021. Whilst the government's Spending Review (SR21) covered more than one year, the funding settlement for local authorities may just cover 2022/23. However, it is currently anticipated that it will cover 3 years and be weighted towards year 1 in terms of any additional funding support.

6. The funding announcements that normally follow the budget would be expected to provide the real details of the resources available to Councils over the 2022/23 financial year. The announcement date remains unknown as yet.

7. Fundamental changes to local government funding have been anticipated for the last three years. The Fair Funding Review was postponed yet again and it has recently been announced that the proposed retention of 75% of business rate growth by councils has been dropped completely. The impact on other income streams, such as a replacement for New Homes Bonus also remains unknown.

8. For financial planning purposes, the assumption in this Medium Term Financial Strategy is for no overall reduction in Settlement Funding Assessments (government funding and retained business rates) for 2022/23 i.e. a standstill settlement. The years thereafter assume continued funding levels (business rates) of similar amounts and increasing annually by inflation, but this may well be overly optimistic given the state of the country's finances and adult social care pressures.

Financial Context

9. The Council's total net Expenditure budget for 2021/22 is £15.501m (£84.675m gross) and is broken down as follows (full details in the budget book/ website): -

Service	Net Budget £
Corporate Resources	808,000
Operational Services	12,160,000
Interest/ Use of Reserves/ Other Grants and Contingency	2,533,000
Total Net Council Expenditure	**15,501,000**

10. The budget is funded by: -

Funded From	£
Revenue Support Grant	1,010,000
New Homes Bonus	173,000
Covid Grant	699,000
Lower Tier services Grant	163,000
Collection Fund Surplus – Council Tax	104,000
Collection Fund (Deficit) - NNDR	(167,000)
Housing Benefit Administration Grant	398,000
C.Tax Support Admin Grant	164,000
Business Rates	2,603,000
Business Rates (Section 31 Grant)	1,569,000
Business Rates Pooling	0
Council Tax	7,304,000
Reserves/Capitalisation (net)	1,481,000
Total Funding	**15,501,000**

2021/22 Review

11. The review of the current year's spending against the budget helps to update and inform the budget process for 2022/23 and beyond. In addition, there were a number of "overs and unders" within the 2020/21 accounts that when compared to

the 2021/22 budget have also helped to inform budget planning for 2022/23 and beyond, albeit with Covid-19 it has been an exceptional period which has led to more subjective, albeit informed, judgements having to be made.

12. The additional cost pressures that impact on the 2021/22 budget and reserves include:

Dangerous Structures - £525,000 (Battle Road)
National Pay Increase – £220,000 (based on a 1.75% increase)
West Hill lift Closure - £235,000 (loss of income and repairs)
Reduction in income from Sales Fees and Charges - £160,000
Homelessness - £457,000, assuming no further increase (£931,000 in full year i.e. 2022/23)
Rough Sleepers - £270,000 (External Grant support being applied for)

13. A number of the cost pressures are viewed as one-off events e.g. dangerous structures, West Hill lift closure, and others are hopefully confined to 2021/22 such as the reduction in income from sales fees and charges. However the national pay increase will have ongoing implications as will the Housing and Rough Sleepers costs unless these are properly funded by government. The housing crisis is not expected to be solved for some years given the shortage of accommodation in the town and rate of new building.

14. Given these additional costs and that Reserve levels are projected to fall below minimum recommended levels this year**, it is recommended that further in year savings and expenditure freezes in selected areas are made as per Table 1 below:**

Table 1: Savings – Including Selected Expenditure Freezes

Savings - including Selected Expendiure Freeze in 2021/22 (Nov 2021 - March 2022)	**Revised 2021-22 £'000**
Hastings Contact Centre - Reduced hours	10
External Funding - covering existing Staffing costs	25
Admin Bldgs - Town Hall - £500 pwk/ Rental of Rooms	10
Transformation team - Freeze recruitment - 5 months	17
Corporate Personnel Expenses - Revised Training Budget	30
Legal - Freeze on Recruitment (beyond debt recovery staffing)	50
Revenues And Benefits - (Including, Doc Mail £15k, Supplies and Services £10k)	25
Waste and Environmental Enforcement Team - Wardens - recruitment of 2 posts postponed	25
Together Action - Part	10
Housing - HBC Funded Deposits	100
White Rock Area Development - supplies and Services	113
Other to be confirmed	50
Additional 2021/22 savings and selected Expenditure Freeze	**465**

15. The table above identifies £465,000 of savings that can be achieved in 2021/22 without the need for redundancies. This is in addition to some £446,000 of in year savings already identified as part of this year's budget process and is in addition to the savings identified when setting the 2021/22 budget in February 2021. After taking account of other budget adjustments the net additional in year savings are estimated at £851,000.

16. The projections for future years are difficult to estimate at present and are very dependent upon the level of government funding that may be forthcoming and the continuing impacts of Covid-19 on the current year's budget as well as those for future years.

17. Covid-19 is impacting on Business Rates and Council Tax. Collection rates for business rates are currently some 9.8% down on this time last year, whilst those for Council Tax are down 1.3% against pre-Covid targets. However, Covid-19 has not impacted as heavily as expected on the Council Tax Support scheme, and there are fewer claimants than anticipated at this time.

18. Business rate income was already an area of high volatility and risk. Whilst the percentage of business rates collected is lower than last year this is based on a lower level of collectible debt – given the government's rate free holidays for the first 3 months of this financial year for some businesses.

Other Income & Expenditure

19. Since determining the budget in February 2021, the Council's budget has been enhanced by the receipt of the funding for Disabled Facility Grants. This was advised in May 2021 and amounts to £2,056,655 for 2021/22 (£1,812,584 originally in 2020/21). This sum will be included within the revised budget.

20. The 2020/21 local election for Hastings BC was postponed until 2021/22 – and there will be a further local election for Hastings BC in 2022/23.

21. The Council has continued to receive government funding for the Additional Restrictions Grant and also for the Test and Trace Scheme along with some New Burdens Funding which is intended to meet the administration costs in undertaking such work.

Capital Expenditure

22. The Council's budget included spending of £22.463m on capital projects during 2021-22. Of this some £12.656m would be funded from borrowing with the remainder funded from grants, contributions, and from capital receipts. The actual expenditure that will be incurred is expected to be £3.8m (net) given delays caused by Covid-19 and new schemes; this results in a reduced MRP cost for 2022/23.

2021/2022 - Summary

23. After eleven years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required without impacting on services.

24. **The substantial additional unfunded costs being incurred this year have drawn down the reserves much faster than anticipated and the Council needs to act now to reduce costs and to avoid having to make even more drastic cuts in the future.**

25. Covid-19 has led to many of the Council's staff working remotely on varied and competing priorities over the last 20 months. There are opportunities to work differently in the future – and to identify some further savings in doing so.

Medium Term Financial Strategy

26. The Medium Term Financial Strategy (MTFS) is attached (Appendix A). It does provide indicative budget forecasts for the next 3 years (current year plus future 3 year period 2022/23 – 2024/25). 10 year projections have not been produced this year due to the uncertainty on future funding, and legislative requirements but will need to be undertaken and especially so once the Town Deal business cases are produced and agreed. For the present, extrapolations have been produced for a further two years, but without future funding knowledge their use remains limited.

27. There are significant areas of budget growth in 2021/22 and 2022/23, e.g. homelessness, rough sleeping, Council Tax Support costs and the impacts of inflation and national pay increases. These cost pressures leave limited scope to address key issues such as climate change – unless there is more central funding.

28. Deficits on the collection fund in respect of business rates and Council Tax are expected to be significant as a result of lower payment levels, deferments, court closures, suspension of recovery action, etc. The government has required deficits in respect of business rates to be spread over a 3 year period, and the Council has put aside money to help meet this additional cost pressure.

29. The ability to forecast the available resources in future years is very difficult, given the governments deferment of the Fair Funding Review, business rates revaluation and the delay in introducing the changes for retaining greater shares in any business rate growth. The future estimates of wage settlements, inflation, investment and borrowing costs are likewise difficult to predict with any great certainty – albeit borrowing is taken at fixed rates to enhance certainty and remove some risk.

30. **The projected deficits for the current and future years are below:**

Revenue Budget Forward Plan	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
	Budget	Revised Projection	Projection	Projection	Projection	Projection
	£000's	£000's	£000's	£000's	£000's	£000's
Net Council Expenditure	15,502	16,310	16,471	16,791	17,368	17,650
Funding	(14,019)	(14,018)	(13,282)	(13,400)	(13,701)	(13,988)
Shortfall	**1,483**	**2,292**	**3,189**	**3,391**	**3,667**	**3,662**
Use of Reserves	(1,483)	(1,483)	(100)	(100)	(100)	(100)
Shortfall after use of Reserves	**0**	**809**	**3,089**	**3,291**	**3,567**	**3,562**

These are enormous deficits to tackle, exacerbated by Covid -19 and particularly the relentless pressures on homelessness budgets following additional legislative burdens and inadequate government funding.

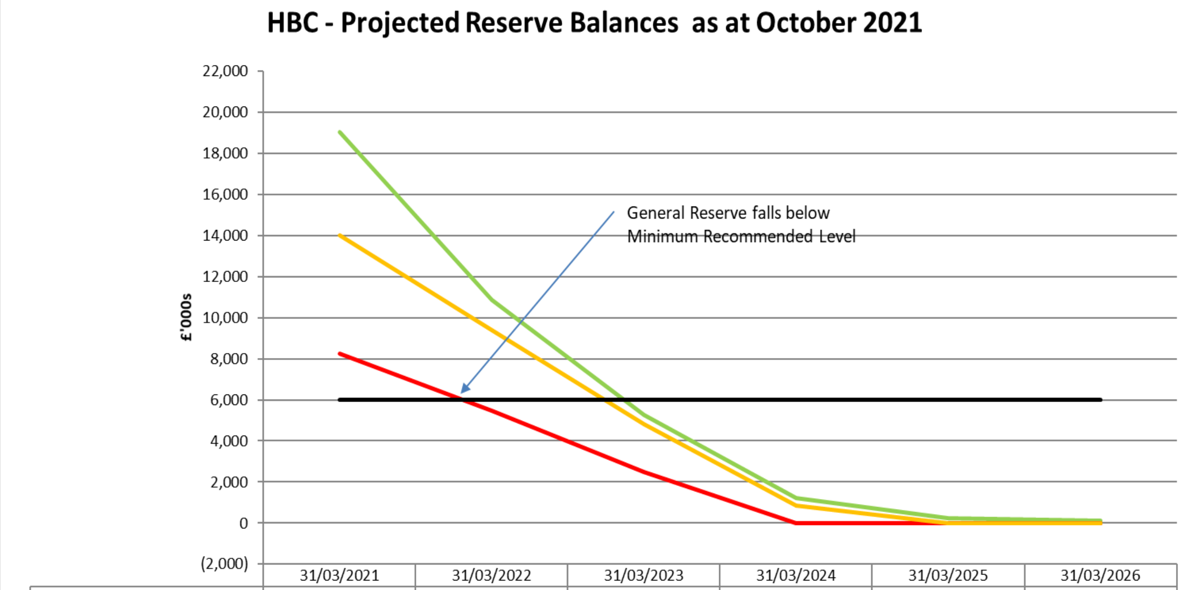
31. The financial projections in the Strategy will be refined before the budget is finalised in February 2022. However, the deficit will increase substantially this year unless urgent action is taken to contain costs.

32. Work is ongoing to identify options for cutting costs for the Council to consider when determining the budget in February 2022.

Reserves

33. The minimum level of unallocated reserves is set at £6m and has enabled the Council to withstand the impact of the pandemic relatively well. However, the increasing costs and loss of income this year means that the Council will see reserves fall below the minimum recommended level of £6m in this financial year, and before the opportunity arises of setting a revised budget in February 2022 – and reducing costs.

34. On current projections the General Reserve (unallocated) will fall to £5.5m by year end (red line)– assuming no further expenditure pressures are experienced (see graph below). The minimum recommended reserve level (£6m) is highlighted in black.



	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
All Reserves £'000s	19,048	10,844	5,281	1,200	232	131
General Reserve £'000s	8,245	5,455	2,495	0	0	0
HBC Usable Reserves £'000s	14,016	9,401	4,810	867	0	0
Minimum level £'000s	6,000	6,000	6,000	6,000	6,000	6,000

35. If the Council agrees the recommendations in this report and makes the savings identified in Table 1 it is anticipated that the Reserve levels will be near to the £6m minimum recommended level. However there are still some 5 months of the year left and expenditure and demand pressures continue.

36. The Council has a number of earmarked reserves which it would not be able to call on to help fund deficits in future years e.g. balances held in respect of S106 monies or disabled facility grants .

37. At the time of writing the 2019/20 accounts remain with the auditors, as do the 2020/21 accounts and hence the levels of reserve balances could still change .

38. Members are recommended to approve the Strategy, which identifies the deficits that need to be fully addressed in the 2022/23 budget setting process. The reserves set aside for unexpected and unforeseen events have been adequate to date for the additional expenditure incurred and the reductions in income experienced. Given the level of reserves and the approved Treasury management policy the Council has not experienced difficulties to date in managing its substantial cash flows.

Budget and Resilience (Financial Stress)

39. As first reported when determining the 2019/20 budget in February 2019, Cipfa indicators highlighted that the Council's reserves are being depleted faster than at other Councils and that there is a **very low level of unallocated reserves**, plus that earmarked reserves are being used more rapidly. The analysis identified that grants and Council Tax form a significant element of the Council's net budget and as external funding diminishes this poses a greater risk to the Council's sustainability.

40. The implications of having inadequate reserves severely jeopardises the ability to meet unexpected costs, claims, shortfalls in income and particularly fund the capital programme and new regeneration opportunities.

41. When reserves meet minimal levels and if there are no viable plans to reduce the deficits, it might be expected in normal times that the external auditors would issue a report under section 24 of the Local Audit and Accountability Act. This notice requires Councils to meet within a month, to consider any report issued, and start taking the difficult decisions required. A section 114 notice may follow shortly thereafter from the Chief Finance Officer. This Council has not yet reached that point but may do so if the necessary actions are not taken.

42. This Council has managed its resources effectively and has maintained adequate levels of reserves to meet unexpected events such as the pandemic – albeit with the assistance of additional government funding. The ability to restore reserves back to minimum recommended levels will be extremely difficult given the expected demand pressures and potential ongoing reductions in funding. It may be that the Council will be operating with reserves below minimum recommended levels in 2022/23 – given that there will be insufficient time to make substantial savings should the funding announcements in the autumn prove to be inadequate.

Anti-Poverty, Equalities and Community Cohesiveness

43. The equalities implications of the annual budget proposals are the subject of an Equalities Impact Assessment. Anti-poverty implications will also be addressed as part of the budget proposals.

Risk Management

44. The key risks are identified in the MTFS. The key areas remain future funding, identification and achievement of service cuts, new legislation, homelessness impact of inflation, business rate appeals, volatility of income receipts, and loss of staff whether it be permanently or through sickness.

Economic/Financial Implications

45. The strategy is based on continuing to receive funding from government at the same levels as 2021/22 for the next three years. Income streams are being reprofiled but remain at significant risk.

46. The MTFS identifies major budget shortfalls in all future years, even after the use of reserves. The identification of further efficiencies, further income generation opportunities and cost reductions remains of critical importance to achieve a balanced budget and must be seen as a top Council priority. It is proposed that a further review of reserves be included within the budget setting process.

47. The MTFS supports the alignment of corporate priorities with available resources and is intended to set the annual budget process in the context of the requirement for financial planning for the medium term.

48. The Council has not been operating under normal circumstances for some years – having to make difficult choices in the light of funding reductions in each of the last 11 years. **Steps must again be taken through the budget process to identify further potential savings to help ensure a sustainable budget can be set by the Council for 2022/23.**

49. The leader of the Council has written to the Secretary of State for Levelling Up, Housing and Communities (Rt Hon Michael Gove MP) to advise him of the increased demand pressures and has requested additional funding to meet the extraordinary costs being incurred.

Climate Change

50. The Council has a key role to play in addressing climate change and any reductions in resources may impact adversely on its ability to achieve all existing corporate plan objectives without further prioritisation.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Work to continue on identifying in year savings for 2021/22	Year end	31/03/2022	Chief Finance Officer, Senior Officers and Budget Managers.
Set balanced budget for 2022/23	Budget Full Council	16/02/2022	Chief Finance Officer, CMG, Members

Wards Affected - All

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	No
Local People's Views	No
Anti-Poverty	Yes

Background Information

Appendices 1,2,3 – Medium Term Financial Strategy
Appendix 4 – Details of Priority Income and Expenditure Review and proposed in-year Savings

Officer to Contact

Peter Grace (Chief Finance Officer)
pgrace@hastings.gov.uk

APPENDIX A

Medium Term Financial Strategy (MTFS) 2022/23 to 2025/26

Purpose of the Strategy

1. Councils are expected to plan their finances over more than a one year period. The longer term planning of finance supports the achievement of priorities in the Corporate Plan and allows more effective planning of services. It encourages Councils to predict events in the future and develop strategies to deal with them. To this end the MTFS seeks to project the funding position to 2024/25.

2. Unfortunately, the Council has quite simply seen real term funding reductions every year since 2010 and continues to make further very substantial cuts annually in order to balance the budget. It will need to continue to do so unless significantly more funding is forthcoming in this year's grant settlement from government.

3. The annual budget cycle refines the process for the immediate year ahead (2022/23) and determines the most appropriate use of available resources as well as setting the Council Tax for the borough.

4. The government funding reductions, since 2010/11, amount to 70% to date on a like for like basis. The medium term plans and budgets have all made it plain that the Council's ability to carry on providing the level of services it does is severely jeopardised given the level of external funding and diminishing reserves.

5. There were to have been wholesale changes in 2020-21 in the way in which local authorities were funded. The Fair Funding Review (the level and distribution of the monies between Councils) was again postponed and has not happened in 2021/22 and there is now no indication that this review will happen. Likewise, the promised 75% retention of business rates from April 2020 has again been delayed. The New Homes Bonus Scheme was due to end in 2019/20, but was extended for 2020/21 and again for 2021-22. No announcement has yet been made on what, if anything, will replace it for 2022/23 onwards.

6. Chancellor Rishi Sunak has announced a three-year Spending Review alongside an autumn budget on 27 October 2021, the first multi-year funding settlement since 2018. It is as yet unknown whether there will be a three year local government funding settlement.

7. The Spending Review indicates that a 2% increase in Council Tax will be permitted for Council's from April 2022 (plus a 1% increase for authorities with Adult Social Care responsibilities).

8. The level of uncertainty around future funding makes it very hard to produce meaningful projections. The local government settlement is generally announced a few days before Christmas leaving little time for meaningful budget planning. It is hoped the detailed funding announcement will be earlier this year.

9. The Council was already in a most challenging financial period, and the Covid-19 crisis has not helped, with some income streams remaining at considerable risk e.g. business rates, car

parking income, rental income. In addition to Covid, there are other significant cost pressures which are identified in this strategy.

10. **This Strategy seeks to identify the deficits in future years on the basis of the best information available at the time and recommends that options for reducing costs be compiled in readiness for the budget setting process, or savings made immediately wherever possible.**

11. The matching of plans to available resources will entail having a number of options for inclusion/ exclusion within the Corporate plan – and/ or items that can only proceed subject to sufficient resources/grants being identified during future years.

12. The Council has some significant projects underway that it needs to complete and some major ones in the pipeline e.g. Towns Fund. Until there is some clarity on funding and achievement of a sustainable budget the Council will need to concentrate solely on priority projects and those that could have significant health and safety implications e.g. reservoir and cliff works.

13. **The use of reserves to fund budget deficits is expected to have significantly depleted reserves to the point where the General reserve is at, or below, the absolute minimum level recommended by March 2022 following additional expenditure pressures**. This jeopardises the ability to fund the upfront costs of schemes and expenditure that cannot be capitalised e.g. feasibility studies, as well as an inability to meet the costs of unexpected events without hurried in-year expenditure cuts.

14. Even if the Council balances its budget for 2022/23 unless there is a degree of clarity and certainty for at least a significant part of the Council's funding stream in the years ahead the Council will need to prioritise its expenditure on the assumption of no additional funding in real terms. It is understood that last year the MHCLG (now DLUHC) were looking at a implementing a safety net where councils experience year on year funding reductions of greater than 5% p.a. – when undertaking their funding reviews.

15. Local government as a whole has faced more severe reductions than other parts of the public sector and has needed to provide strong discipline and management to put itself in a position to best address these challenges. The Medium Term Financial Strategy (MTFS) is a key document in setting out the Council's approach to establishing a financial base to enable the Council's policies and priorities to be delivered.

Background

16. The MTFS is the first stage in the annual business planning process. A later stage, the budget process, will examine the financial implications of any revisions to corporate plan objectives and match these to available resources to define a Council-wide budget requirement in early 2022. The corporate planning process ensures there is integration of all key strategies and the policies of the Council.

17. This strategy assumes that 2022/23 will result in a standstill settlement for local authorities, but even a real term increase in funding is not expected to close the funding gap significantly.

18. The strategy will be updated as and when details of the settlement and implications emerge in the months and years ahead. Significant cost reductions need to be identified urgently and will need to be implemented in full or in part depending upon the level of funding.

Strategic Priorities

19. The Council's strategic priorities were reviewed for 2021/22 in the light of the continuing challenges that the Council and the community face particularly in the light of the reduced funding levels and the climate change emergency.

20. The priorities are:

- Tackling poverty, homelessness and ensuring quality housing
- Keeping Hastings clean and safe
- Making best use of our buildings, land and public realm assets
- Minimising environment and climate harm in all that we do
- Delivery of our major regeneration schemes
- Ensuring the council can survive and thrive into the future

21. The Corporate plan will need to be reviewed for 2022/23 against the background of Covid-19, funding and the continuing demand pressures – particularly around homelessness and temporary accommodation requirements.

22. The Council has had a good track record of achieving its objectives and improving performance, but inevitably there is greater expenditure now on projects delayed by Covid-19 and changed priorities. Albeit there are significant funding issues and demand pressures the Council should still be well placed to deliver a significant programme in 2022/23 but may need to substantially refine its priorities given the level of savings required.

23. Significantly reduced resources will inevitably impact on service delivery in the years ahead.

Key Principles of the Medium Term Financial Strategy (MTFS)

24. The Financial Strategy is robust in that it integrates the financial and policy planning procedures of the Council. That robustness is built upon a foundation of key principles:

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

All key decisions of the Council relate to the Corporate Plan. Priorities are determined and reviewed in the light of any changes to the Plan.

(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 had consciously strengthened its reserves, knowing that these would be required to ease the transition to a lower spending Council and to meet key corporate priorities. **The Council has required the use of these reserves to achieve balanced budgets every year since 2018/19 and they are now estimated to fall below the minimum recommended level by March 2022 unless additional funding is received, or significant expenditure reductions are made.**

(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 "base budgets" to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews – PIER). The Council established an Invest to Save Reserve to assist in this regard, but that reserve is now close to being fully exhausted.

(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, if available, 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 have been established to meet specific needs and events (earmarked reserves). Volatility within business rates and the Council Tax Support scheme resulted in the establishment of a separate reserve to smooth some of the fluctuations. In the event of a recession, and as highlighted by the pandemic the volatility in income streams and expenditure can be highly significant. **Should general (unearmarked) reserves fall below the minimum level then steps need to be taken to restore them as soon as practical.**

(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 report produced by the Council's external auditors in on the 2018/19 final accounts gave a positive opinion on the Council's provision of value for money services. Whilst draft reports have been received from the auditors on the 2019/20 accounts final sign off has still not been received (at the time of writing). The external auditors are also working on the 2020/21 accounts.

(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.

Local Government Spending Control Totals

25. The Chancellor's October 2021 autumn budget has identified that Council's overall will see a real term increase in funding i.e. at least comparable baseline funding to 2021/22 is assumed.

26. The grant settlement figures, generally received in December, provide 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 (SFA).

Summarised Grant Position

27. For the period 2010/11 to 2021/22 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 significantly).

28. It has already been seen that resources are being redirected towards authorities with social care responsibilities, it would be hoped that the worst case scenario would see a cash neutral settlement between this year and next. Benefit Administration grant could also decrease significantly as the numbers now on Universal Credit rather than Housing Benefit (HB) have increased significantly (HB claimants now 5,499 - as at 31 August 2021).

29. The limited level of grant when combined with the additional costs from inflation, pay increases and demand pressures present the Council with significant financial and resource challenges. 2022/23 will see the impacts from lower business rate collections, income reductions and additional expenditure pressures.

FINANCIAL CONTEXT - The National Economic Climate

30. Bank base rates were reduced to 0.1% in March 2020 and base rates are now expected to increase over the next two years.

31. Inflation (CPI) amounted to 3.1% in September (RPI 4.9%) and presents real time cost pressures for the Council. Inflation could rise further in the coming months.

32. In determining the Medium Term Financial Strategy, the impact of the economic climate on the Council has to be considered. As a result of all the uncertainties on the economy and Covid-19, once again no general allowance can be made for an uplift in the Council's income streams in terms of volumes, although individual income streams are being critically reviewed. If circumstances changed and there were to be a prolonged decline in the overall economy then welfare related expenditure would be expected to increase e.g. homelessness, benefit payments.

Risks and Opportunities

33. There are numerous financial risks facing the Council over the next four years, including: -

- External funding in terms of the government's Spending Review 2021 and the subsequent local government funding settlement.

- Business Rates Retention Scheme – a new funding regime was introduced on 1 April 2013 whereby Councils retain an element of business rates and any growth (or reduction) – this increased volatility and risks for Council funding. The local retention of business rates presents real risks to the authority should rate income decrease, but likewise provides the Council with an incentive to increase the business rate base and the level of business rates being collected. Business rates were set to become a key foundation of local government funding but business rates themselves as a tax on business is under fundamental scrutiny.

- Business Rate Appeals – This remains one risk that is proving particularly costly at present and remains difficult to estimate. The Council has been picking up the cost of revised rating determinations and national decisions emanating from the courts.

- Council Tax Support Scheme – the Council is not proposing any change to the scheme for 2022/23 – the cost of the scheme could increase very significantly should unemployment increase, and more people become eligible.

- Security of income streams.

- Increased demand for public services – homelessness and temporary accommodation.

- Delivery of the identified Priority Income and Expenditure review (PIER) savings.

- Pension Fund Performance and changes to the national scheme, plus a revaluation exercise in 2022/23 (new contribution rates from 1 April 2023) .

- Housing Benefits – Universal Credit and the impact on Housing Benefit Administration grant.

- There remain opportunities for joint working, shared services and joint procurement that have proven to be successful in reducing costs in the past e.g. Building Control service. A number of contract areas are coming up for renewal which may allow for detailed scrutiny of the specification and how these could be delivered differently in the future – whether in-house or externally.

- The prospects for all centrally funded organisations have become one of decreasing resources. The government's borrowing requirement has increased and significant public spending cuts are still expected. Further reductions in benefit funding by the government may also have wider ramifications for Hastings e.g. effects on homelessness, inward migration.

- The Council has some significant housing initiatives e.g. social lettings scheme, Licensing scheme, housing company, as well as energy initiatives. Each of these has financial repercussions if business plan objectives are not achieved.

Council Tax and Business Rates

34. In determining the actual level of Council Tax for 2022/23 the Council will need to take into consideration the government's referendum principles which for 2021/22 were based on the requirement to hold a referendum for increases that were above £5 as well as exceeding 2% or above. This MTFS assumes a 1.99% increase in Council Tax for 2022-23. Each 1% increase in Council Tax will yield approximately £71,000.

35. The tax base for 2022/23 and beyond is estimated to increase by 1% p.a. (net) for the purposes of producing this strategy. This is mainly due to the expected increase in the level of new housing completions and no increase in the numbers claiming Council Tax Support.

36. The MTFS assumes a surplus of £100,000 on the Council's Collection Fund in respect of Council Tax. Likewise, a deficit in respect of business rates income is expected - mainly caused by the high level of successful rating appeals and the increase in bad debt provision. An estimated deficit of £100,000 has currently been included in the strategy but this figure could be amended significantly before the year end.

Funding from Business Rates (2021-22)

37. 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 the Council receives Revenue Support Grant (RSG) and monies from Business rates (an assessed Business Rate Baseline Funding level - expressed as Baseline Need). The two figures effectively made up the Settlement Funding Assessment (SFA). The government calculated a notional business rate figure they believed each Council should collect, although ultimately it is the actual level of business rates collected that determines the total funding received.

38. The business rate, itself, is set by the government with regard to the change in the Retail Prices Index. The proportion retained in Hastings for 2021-22 is 40% (9% is payable to ESCC, 1% to the Fire and Rescue Authority and 50% to the Government).

39. Under the current 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. The 50% central government share is distributed through the annual local government settlement process – thus enabling the government to control the overall amount received by local authorities.

40. 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 generally every three years.

41. Where there is disproportionate growth this is 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 - the first reset was due in 2020/21 (now delayed). The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

42. 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.

Business Rates - Pooling (2022/23) and 2023-24

43. For 2021/22 the Council, along with the East Sussex County Council, all East Sussex Boroughs and Districts, and the Fire Authority, are in a pooling arrangement. This means Councils retain 50% of any business rate growth but are also impacted by losses.

44. The question, when writing this strategy is what will now happen for 2023-24, given that the government have indicated that the current arrangements will be extended into 2022/23 – the business rate retention level of 75% is not being introduced as announced by the government on 8 November this year.

45. 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 and an inflationary increase has been allowed for in 2022-23 and each year thereafter.

46. The rateable value (RV) of business properties at the start of the 2021/22 year was forecast to be some £61.565m (some £1m lower than 2020/21). As at the 31 August 2021 the RV of business properties is still higher than originally estimated at £62.8m However, given the level of appeals and businesses in trouble, forecasting income levels for 2021/22 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 uncertainty and volatility.

47. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council was due to collect some £20.675m (net) in 2021/22 of which the Council share was some 40% (£8.270m in 2021/22). 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 £5,667,405 in 2021/22. The estimate of the business rate income collected that will be retained by the Council in 2021/22 being some £2.6m. Following continued major changes to business rates and reliefs due to Covid-19 for the first three months of 2021/22 the government are funding the Council directly with some £2.7m of monies that it would have otherwise had to collect.

48. 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; At present this remains very challenging given the much lower collection levels being experienced (some 9% below target) since the ending of the 3 month rate free periods for some businesses.

Income and additional costs

49. The Council now has limited reserves and remains reliant upon income streams and investment returns to balance the budget. The impact on rental streams following Covid -19 continues in some areas e.g. Priory Meadow.

50. Given that income streams remain at risk, fees and charges are 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.

51. For 2022-23, with a number of exceptions, fees and charges will be considered against market rates, and this strategy assumes they will be increased as a minimum by the retail price index - except where set by statute. The majority of planning fees are determined nationally by government.

Income

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

53. The Council continues to increase the level of income it is receiving from its own property portfolio and is looking to increase income from energy projects in the future too.

54. The table below highlights some of the more recent acquisitions and initiatives that have either generated or saved money and goes a little way to meeting the massive funding reductions the Council is experiencing and thus helps to protect services.

Acquisitions/lettings	Est Income/Rent Saved- 2021/22	MRP and Interest 2020-21	Net Additional Income 2021-22		Net Additional Income by 2023/24
	£	£	£		£
Muriel Matters	321,000				
MM Shops	41,000				
Sub Total	362,000	220,800	141,200		141,200
Muriel Matters - Council Chamber etc	37,500		37,500		66,500
Town Hall	97,000		97,000		97,000
BD Food Factory	40,000	91,488	(£51,488)		(£51,488)
Sedlescombe Road North	466,820	294,613	172,207		172,207
Sea Front Kiosk	7,900	-	7,900		7,900
Bexhill Rd Retail Park	352,336	356,660	(£4,324)		159,285
Sedlescombe Rd North (2)	147,781	97,346	50,435		50,435
Bexhill Road Redevelopment Site	270,000	323,303	(£53,303)		93,611
Lacuna Place	435,808	355,737	80,071		250,049
Heron House	190,000	107,952	82,048		82,048
26- 28 London Road and 35 Shepherd Street	89,900	62,210	27,690		27,690
Property Fund	85,000		85,000		85,000
Totals	**2,582,045**	**1,910,110**	**671,935**		**1,181,437**

55. 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 unable to borrow purely for yield (profit). The purpose of setting borrowing limits is to ensure that the borrowing costs are prudent and affordable when determining the budget. It is able to vary them within the year, but such decisions can only be taken by full Council.

56. The borrowing levels are contained within the Treasury Management Strategy which is considered by the Audit Committee and Cabinet before being determined by full Council. Any changes would also necessitate a change to the Capital Strategy – also now determined by full Council.

Investment and Borrowing

57. The relatively low levels of interest received on investment balances looks set to continue. Base rates were reduced in March 2020 to 0.1%. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review. Investment returns for the purpose of the MTFS are estimated at 0.5% overall.

58. The Council has had significant additional borrowing requirements in recent years and continues to have an ambitious Capital programme. The Capital expenditure agreed as part of the February 2021/22 budget would increase borrowing to levels to some £98m by the end of 2022/23. This would increase annual borrowing costs substantially as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision). The costs appearing in the MTFS are estimates of the expenditure now likely to be incurred and will need to be refined in line with a revised Capital programme as to be agreed by Council in February 2022.

Inflation

59. This had not been a major risk over the last couple of years but has now increased significantly. September 2021 saw it increase to 4.9% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 3.1% . Inflation (CPI), according to the government's projections (as per Monetary Policy Committee , August 2021) is expected to return to the 2% target level by late 2023. There are increases in fuel and energy costs and the temporary cut in VAT for the hospitality sector, holiday accommodation and attractions that is due to end. As these effects unwind, inflation rises dramatically and pushing up costs for the Council.

60. Based upon the above projections, contract inflation is being allowed for at 3% overall for 2022/23 and beyond as many of the increases are determined on this year's indices. **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

61. The salary increase for 2021/22 has not yet been agreed, with the offer currently standing at 1.75% (backdated to April 2021) being rejected by the unions. This level of increase was not allowed for when setting the annual budget for 2021/22 (the government's limits being included).

62. The figures in the Medium Term Financial Strategy assume a 2% increase for 2022/23 and beyond. In addition, there are contractual increments (equivalent of around ½%).

63. The salaries budget together with national insurance and pension costs amounts to some £13m in 2021/22.

64. The Council remains committed to paying the <u>accredited</u> living wage of £9.50 per hour (for over 18's) and this is set to increase further with new rates being announced in November 2022. The <u>national minimum</u> wage for over 23s is £8.91 per and is set to increase by 6.6% from April 2022 to £9.50 per hour; this could increase contract costs significantly above the 3% currently being allowed e.g. cleaning contracts, waste collection etc.

Universal Credit and Benefit Administration Grant

65. Universal Credit was originally expected to commence in October 2013 in respect of new claims with the transfer of existing claims being completed by 2018/19. The first new claims actually took place in April 2015 but 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 (now partly reversed for some claimants).

66. The impact of the change has been a reduction in new benefit claims, an increase in questions and support, and until last year a significant reduction in the Housing Benefit Administration grant receivable. Covid-19 has resulted in significantly more people becoming eligible for Universal Credit as they have been on furlough or their circumstances have changed in the last 18 months. Of the 5,499 claiming Housing Benefits (at the 31 August 2021) an estimated 460 could potentially still transfer onto Universal Credit.

67. It should be noted that the final stage and timeline for converting existing working age Housing Benefit claims onto Universal Credit was to be completed by 2022 and whether this deadline remains is unclear. There does now appear to be some plans for the transfer of pensioners to Universal Credit in a few years time but no details on the more complex cases moving away from Housing Benefit. The retention of the pensioner and complex cases has resulted in the Council retaining some 40% of benefit cases.

68. The Department for Work and Pensions (DWP) continue to provide some additional funding to the Council; this is payable to the Council to meet the additional burdens on dealing with DWP enquiries, complex cases and closing down existing claims. How much and for how long this funding remains is uncertain.

69. The Benefit Administration Grant for 2021/22 was £411,383. The £397,789 in respect of 2020-21 was increased by a further £34,749 (paid in the 21/22 financial year). Whether current funding levels continue into 2022/23 is as yet unknown.

70. The level of Council Tax Support Administration Grant receivable in 2021/22 was £156,974 (£157,497 received in 2020/21).

71. It should also be noted that the Discretionary Housing Payments (DHP's) funding received from the government to assist those in severe financial hardship, is not only covering those with Housing Benefit claims, but also covers those in receipt of Universal Credit. As such the number of referrals from Universal Credit recipients is increasing – and adding an extra layer of

administrative complication. The amount receivable in 2021/22 is £311,674 - of which £119,697 has already been allocated (at 30 September 2021). A similar level of support is anticipated for 2022/23.

Council Tax Reduction Scheme

72. In 2013/14 the government paid an upfront grant in respect of Council Tax Support/Benefit, 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 government grant funding. The Council determined that the Council Tax Support Scheme would remain the same for 2015/16, 2016/17, 2017/18 and 2018/19. In 2019/20 the Council retained 100% support for those most in need but made various changes to the scheme e.g. limiting assistance to the maximum of a Band D equivalent property.

73. The other East Sussex Councils amended their schemes for 2016/17 given the ever increasing unaffordability of the scheme. The major change made by them being that all households of working age made a minimum 20% payment. Options were again being explored by this Council for 2020/21 which included minimum payments of 3%, 10%, or 15%. Following a review by lead members the Council did not make any amendments to the scheme for 2020/21 or for 2021/22. This strategy assumes that no amendments to the scheme will be made for 2022/23.

74. The projections were that due to Covid-19 and subsequent unemployment levels the cost of the scheme could increase significantly from the£10.8m in 2020/21 to some £12.4m in 2021/22. This has not occurred to date and current estimate (2021/22) for the scheme is £11.122m p.a. (9,337 claimants as at 3 November 2021).

75. The Council Tax Reduction Scheme continues to pose a significant financial risk for the Council as the furlough scheme unravels and businesses assess their staffing needs. The 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 as the scheme cannot be amended mid-year.

Priority Income and Efficiency Reviews (PIER) Process

76. The consideration of budget options by lead members and officers enables a detailed examination of service performance and priorities, cost pressures, and the scope for achieving efficiency savings and additional income.

The objectives of the process are as follows: -

- To provide services with an opportunity to submit proposals for the business plan. The proposals include all unavoidable growth and savings amounts.

- To allow service delivery proposals to be measured against the corporate plan objectives.

- To provide a mechanism for challenging service proposals in an informed, robust and constructive fashion.

- The revenue estimates and the capital programme are closely linked. As such service bids for capital funding are considered at the same stage.

77. In addition to the annual Strategic Budget (PIER) process the Council continues to have a programme of areas to review e.g. service reviews, and business re-engineering process reviews in order that efficiencies continue to be achieved, monitored and potential new areas identified.

78. The scale of the budget savings required to balance the budget on a sustainable basis following Covid-19 remains large. The time between the identification and the achievement of savings, as well as income generation, can be significant.

Pension Fund Contributions

79. 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 2019 with revised contribution rates becoming payable from April 2020.

80. The actuary calculated that the fund liabilities in respect of Hastings staff (past and present) amounted to £122,444,000 whilst assets amounted to £122,188,000. This represented a deficit of some £256,000 (£18.247m at 31 March 2016) and represented a significant improvement in the position of the fund within a short space of time.

81. The valuation of assets and liabilities for 2020/21 final accounts purposes shows a deficit of some £46.2m on the Council's part of the fund as at 31 March 2021.

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

    2020/2021 is : 17.6% +0.75% + secondary contribution rate of £538,000 (some 6.5%)
    2021/2022 is : 17.6% +0.75% + secondary contribution rate of £508,000 (some 6.0%)
    2022/2023 is : 17.6% +0.75% + secondary contribution rate of £476,000 (some 5.5%)

83. Despite the increased deficit there are no moves by the actuary to increase contribution rates at present. The reductions in secondary contributions in 2022/23, amounting to £32,000, are expected to offset the impact of the annual increase in pay on pension costs.

Staffing, Information Technology and Property

84. In order to deliver its services, the Council not only requires financial resources but also good quality staff, IT, and well maintained property. There is only a finite resource available to deliver priorities whether directly by the Council or in partnership with others. Service planning is important to ensure that there is sufficient capacity to deliver the annual plan.

85. The Council's capacity to respond to change, and lead on new initiatives is dependent upon the strengths and abilities of the workforce. The Council has a clear strategy for workforce development and sufficient funding will be retained within the budget to fully finance the training and development programme.

86. The transformation programme has been important to making long term savings and to preserve as many services to the community as possible – albeit delivered in a different way.

Grants

87. The Council receives a number of revenue grants each year e.g. New Homes Bonus, Flexible Homelessness Support, Discretionary Housing Payments but has also been very successful in attracting numerous “one off” type grants in the last few years e.g. Rogue Landlord funding, Future Cities, and Active Women Programme, Hastings Fisheries Local Action Group (HFLAG), Coastal Communities funding.

88. 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 has been 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) Coastal Communities Fund 4 (Destination White Rock) – continuing the economic revival. Total project value (grant and match: £1,081,270)

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

90. Of particular significance is the Towns Fund - £3.6bn national initiative focusing on 100 towns of which Hastings is one. The Council has received an offer of £24.3m for the delivery of the investment proposals put forward.

91. The Towns fund provides the means to carry on the transformation of Hastings when other funding remains unclear e.g. loss of EU grants and what if anything will replace them. Securing the grant has been a significant accomplishment and started a major item of work for the Council and its partners.

New Homes Bonus

92. 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 2021/22 amounted to £173,162. There has been no announcement as to whether the New Homes Bonus will continue to be more than just the legacy payments in 2022/23 in which case the estimate is for income of £26,320.

93. The government changed the scheme in December 2016 to divert money to social care. It reduced the period it was payable for - from 6 years to 4 years with a transition year for 2017/18 whereby 5 years was 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 was not affected by the threshold decision.

94. The Council Tax Base return (CTB 1 in October each year) identifies the number of new properties completed and the number of long term empty properties brought back into use (net). For the 2021/22 calculation the number of new properties and an increase in empty properties did not achieve the threshold (an increase of more than 0.4% of the housing stock).

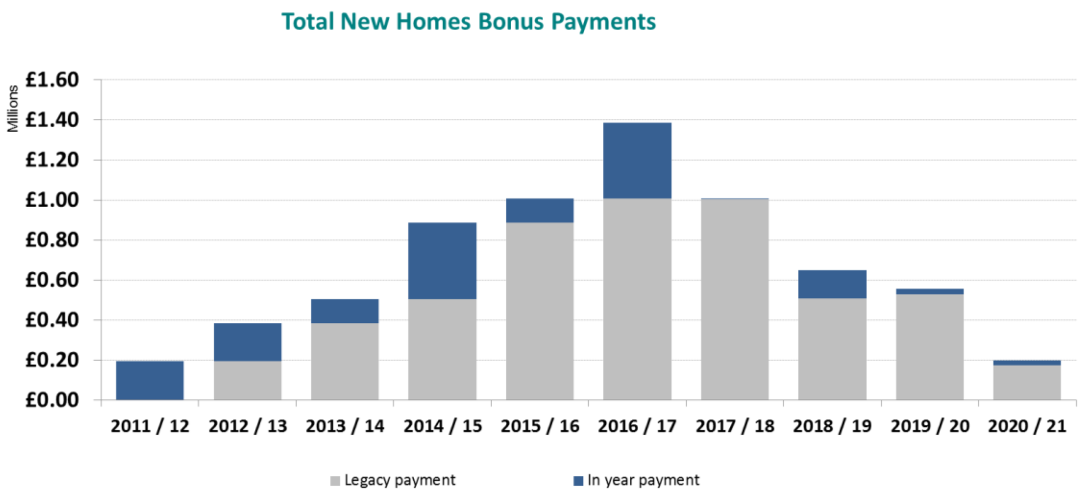
95. The table below shows the estimated New Homes Bonus receivable by the Council in 2022/23 – based on no further changes to the grant award criteria.

Table: New Homes Bonus

Year	2017/18	2018/19	2019/20	2020/21	2021/22	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			26,320	26,320	26,320	26,320
Year 10				25,200		
Year 11					4,480	
Total	1,008,964	649,559	556,337	199,482	173,162	26,320

96. The reduction between 2021/22 and 2022/23 is **a funding loss of £146,842.**

97. The graph below identifies the funding levels since 2011/12 and the massive reductions since 2016/17.



98. Councils have used 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, and if there is no replacement scheme this is a severe funding reduction.

99. As identified in each of the last two years there remains a real risk that this grant regime could be ended and not replaced. The government did state that they would explore how to incentivise housing growth most effectively, by for example using the housing delivery test results to reward delivery or incentivise local plans that meet or exceed local need.

Indicative Base Budget Position for 2021/22 to 2024/25

100. An indicative budget forecast for the current and next 3 year period 2021/22 – 2024/25 is shown in Appendix 1 to reflect the issues raised as part of the review of the MTFS. This is indicative given the uncertainty surrounding the costs of some of the financial pressures and funding levels and the recognition that further work is required to refine these figures before the budget is finalised in February 2022. The forecast does not include any costs associated with additional capital projects other than those already included within the Capital programme. A 10 year forecast has not been produced given the uncertainties on future funding and expenditure – although an extrapolation has been included for a further 2 years. The extrapolation shows an increasing deficit – if no remedial action is taken.

Summary of Financial Position

101. When setting the budget in February 2021, forecasts of future deficits were identified. These amounted to £1,483,000 in 2021-22, £2,305,000 in 2022-23, £2,646,000 in 2023-24, and £2,642,000 in 2024/25. However, following Covid-19, increases in homelessness costs, revisions to income forecasts, inflation, National Insurance and wage increases, reductions in funding from New Homes Bonus, etc., the deficits look set to increase further.

102. The PIER savings were listed in the February 2021 budget reports (Appendix K) and amounted to net savings of £484,000 in 2021/22 with a further £218,000 in 2022/23. Following Covid-19 not all of these savings will be achieved within the projected timescales e.g. sale of assets, management restructure, capital schemes and investment returns.

103. During the last 12 months limited time has been available to identify savings or substantially restructure. **The extra pressures now being encountered on the budget mean that the Council's Minimum Level of Recommended Reserves are likely to be breached before 31 March 2022 unless action is taken to reduce expenditure in the remaining months of 2021/22.**

104. The table below summarises the estimated deficits for the current and next 3 years of £2.292m in 2021/22, £3.189m in 2022/23, £3.391m in 2023/24, £3.567m in 2024/25. The Council had already agreed in February 2021 to use £1.483m of reserves to help balance the 2021/22 budget**. These revised estimates do not take account of any in-year savings that may still be achieved.**

Revenue Budget Forward Plan	2021-22	2021-22	2022-23	2023-24	2024-25	2025-26
	Budget	Revised Projection	Projection	Projection	Projection	Projection
	£000's	£000's	£000's	£000's	£000's	£000's
Net Council Expenditure	15,502	16,310	16,471	16,791	17,368	17,650
Funding	(14,019)	(14,018)	(13,282)	(13,400)	(13,701)	(13,988)
Shortfall	**1,483**	**2,292**	**3,189**	**3,391**	**3,667**	**3,662**
Use of Reserves	(1,483)	(1,483)	(100)	(100)	(100)	(100)
Shortfall after use of Reserves	**0**	**809**	**3,089**	**3,291**	**3,567**	**3,562**

105. Given the uncertainty on future government funding levels, the impacts of the recession and subsequent demands on council services, the Council will need to identify contingency options in order to help address the budget deficits that will only become clearer at or around the start of January 2021.

Council Tax

106. The Council has a record of lower than average tax increases (Band D figures).

Year	Hastings BC Tax Increase (%)	National Average (%)	Hastings BC Council Tax (£)
2010/11	1.90%	1.80%	235.85
2011/12	0.00%	0.00%	235.85
2012/13	0.00%	0.30%	235.85
2013/14	0.00%	0.80%	235.85
2014/15	0.00%	0.90%	235.85
2015/16	1.90%	1.10%	240.33
2016/17	2.1% (£5)	3.10%	245.33
2017/18	2.0% (£5)	4.00%	250.33
2018/19	2.99%	5.10%	257.81
2019/20	2.98%	4.70%	265.50
2020/21	1.99%	3.90%	270.78
2021/22	1.99%	4.40%	276.17

107. In considering any Council Tax increase for 2022/23, 1% on the Council Tax will equate to around £71,000 of additional income.

108. For 2021/22 the government allowed a shire district or borough Council to increase Council Tax by up to 2%, or up to and including £5, whichever is the higher. If higher than this the Council would be required to hold a referendum.

109. The MTFS includes the assumption of a 1.99% in Council Tax (HBC part) for 2022/23 and 1.99% for each of the years beyond.

CAPITAL

110. Resources for major capital projects remain scarce. For projects to be considered schemes need to meet the following criteria:-

(a) Contribute towards achieving the Council's corporate priorities and one or more of the following,
(b) be of a major social, physical or economic regeneration nature,
(c) meet the objective of sustainable development,
(d) lever in other sources of finance such as partnership/lottery funding or provide a financial return for the Council,
(e) is an operational necessity or an "invest to save" scheme and reduces ongoing revenue costs to assist the revenue budget.

111. The Council's capital programme for 2021/22 and the next 2 years, as approved in February 2021 (reproduced below), amounted to some £36.567m (£23.2m net of grants and contributions). The capital programme will be considered as part of the budget process and decisions taken in the light of available resources.

	Revised 2020/21 £'000s	**2021/22 £'000s**	**2022/23 £'000s**	**2023/24 £'000s**
Gross Capital Expenditure	13,883	22,463	12,145	1,959
Net Capital Expenditure	9,272	12,781	10,306	120
Financing from own resources	4	125	216	120
Borrowing Requirement	9,268	12,656	10,090	0

112. There have been a number of amendments agreed to the Capital programme budget by Council since approval in February 2021. Additional monies have been allocated for Harold Place and the Buckshole Reservoir works. The revised timescales results in a shift of the Capital programme to 2022/23 and 2023/24, with net capital expenditure expected to be £3.841m in 2021/22 rather than the £12.656 in the original budget – reducing the borrowing requirement significantly in this financial year.

Revised capital programme (EST)	**Revised 2021/22 £'000s**	**2022/23 £'000s**	**2023/24 £'000s**	**2024/25 £'000s**
Gross Capital Expenditure	8,162	21,634	6,547	1,874
Net Capital Expenditure	3,841	12,908	4,708	35
Financing from own resources	0	205	85	0
Borrowing Requirement	3,841	12,703	4,623	35

113. In 2020/21 the actual borrowing requirement increased by some £8.039m (compared to the revised estimate of £9.268m). No new borrowing took place in the year and the external debt outstanding at 31 March 2021 has reduced temporarily to £64.69m.

114. For the purposes of planning, the Council now uses 7% as the cost of capital (4% capital repayment and 3% in respect of long term interest). If an asset has a shorter life (than 25years) then the capital repayment percentage (4%) must increase e.g. percentage becomes 10% for an asset with a 10 year life. When looking at the viability of individual schemes being proposed current rates of interest are also used.

115. There is a need to maintain assets to avoid higher long term maintenance costs. This is especially critical where the Council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area - and also given the increase in competition for tenants. The Council maintains a Renewal and Repair Reserve for significant items of programmed work. Where major works or alterations are required these will be included within the capital programme. It should be noted that generally the annual revenue expenditure is out-stripping the contributions being made to the reserve. It should be highlighted that there continues to be significant works required to the cliffs. A significant element of such works are classed as revenue costs and General Reserves will be required to fund these – or elements thereof for many years to come.

116. The Council's Capital programme remains ambitious. There are in addition a whole series of potential developments in the pipeline. Appendix 2 highlights some of these e.g. new sports centre, the development of houses at Bexhill Road, Towns Deal Fund projects. The ones identified amount to some £158m over the next 1 -10 years or so, and are not all affordable given the unsustainability of the revenue budget, and the limited level of reserves available to meet the cash flow requirements, feasibility studies etc. there are also other areas of unavoidable spend e.g. concrete repairs on seafront.

117. **A revised Capital Strategy will be produced for 2022/23, but the affordability is dependent on individual business cases, the future funding of the Council and achieving a balanced budget. The profiling of the programme will need to ensure that it is affordable from a <u>cash flow</u> and <u>risk</u> perspective.**

Capital Receipts

118. The Council's land disposal programme for this financial year is estimated to produce capital receipts amounting to over £5.5m in 2021/22 and just £30,000 in future years. Any new capital expenditure proposals would be costed on the basis that they would have to be funded by borrowing. However, where possible the Council's revenue account would benefit from the use of capital receipts to fund these schemes and potential asset disposals need to be considered wherever possible.

119. The presumption remains that the Council will only dispose of sites after considering the housing potential. However, it remains imperative that the Council maximises its capital receipts. Failure to do so may necessitate curtailment of the already very limited capital programme given the costs that are faced if the Council has to borrow.

120. The Council resolved to dispose some of its ready to develop sites to finance the larger initiatives in its programme as well as avoid the costs associated with temporary accommodation.

Minimum Revenue Provision (MRP)

121. 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.

122. 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.

123. The MRP is set to increase substantially in 2022/23 and beyond as a result of additional borrowing, particularly in respect of economic and regeneration initiatives. The Council's MRP policy is determined by full Council as part of the Treasury Management Strategy in February for the forthcoming year.

124. The table below identifies the estimated Capital Financing Requirement (CFR) for the current and each of the next three years along with the estimated Minimum Revenue Provisions (MRP), following revised projections for this year's Capital programme.

CFR	2020/21 (unaudited)	2021/22 (Est)	2022/23 (Est)	2023/24 (Est)
	£	£	£	£
CFR-Opening	66,372,000	72,683,479	74,856,324	85,795,478
Less MRP	(1,499,551)	(1,668,155)	(1,763,846)	(2,245,815)
Plus, New Borrowing	7,811,030	3,841,000	12,703,000	4,623,000
CFR Closing	72,683,479	74,856,324	85,795,478	88,172,663

125. The above figures are very much dependent upon the level and timing of the capital spend, the level of capital receipts received, and the useful life of the assets acquired or constructed.

126. **The figures will be refined for the revised 2021/22 budget, based on the proposed Capital programme and timing thereof.** The MRP for 2021/22 is now estimated at £1.668m (down from the original estimated £1.723m in February 2021 due to changes in the programme).

Reserves

127. 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

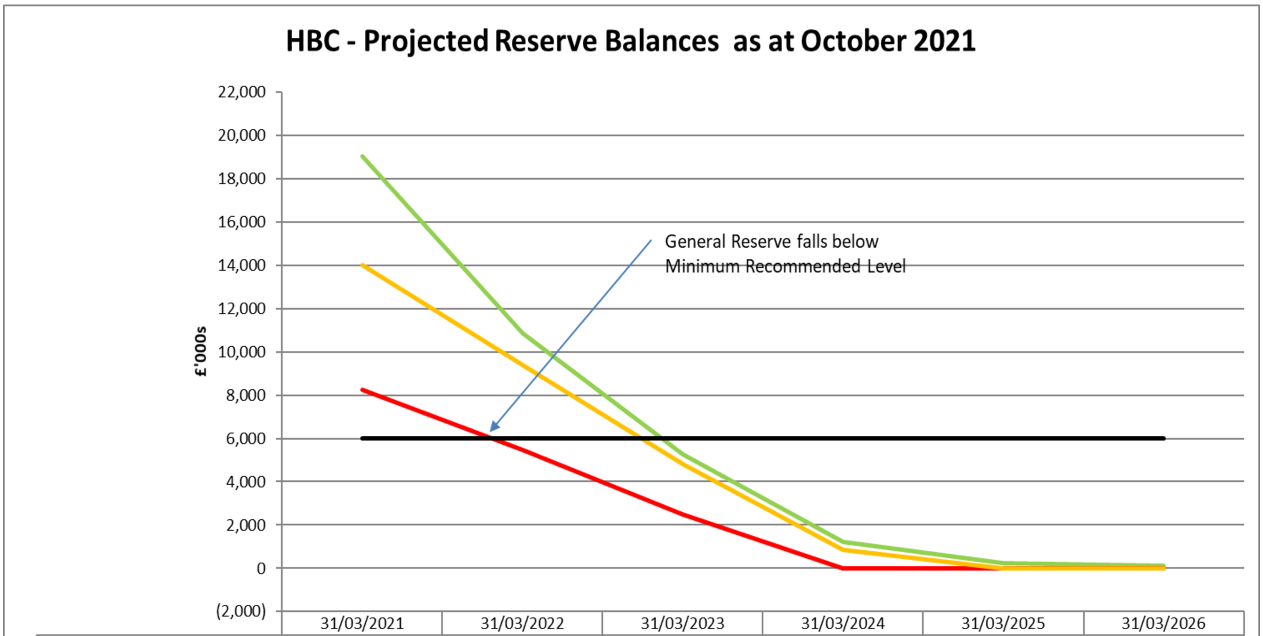
(b) A contingency to cushion the impact of unexpected events or emergencies

(c) A means of building up funds to meet known or potential liabilities. Such reserves are referred to as Earmarked reserves.

(d) To assist in the transition to a lower spending Council in the years ahead.

(e) To provide the Council with some resources in future years to meet corporate objectives particularly in the areas of economic development and regeneration, and those costs associated with projects that cannot be capitalised..

128. For the purposes of the strategy estimates have been made of expenditure funded from reserves in order to arrive at reserve balances as the end of the current financial year (31 March 2022) and for future years.



	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
All Reserves £'000s	19,048	10,844	5,281	1,200	232	131
General Reserve £'000s	8,245	5,455	2,495	0	0	0
HBC Usable Reserves £'000s	14,016	9,401	4,810	867	0	0
Minimum level £'000s	6,000	6,000	6,000	6,000	6,000	6,000

The deficit for the year is expected to increase from £1.483m to some £2.292m. The use of an additional £809,000 of the General Reserve would reduce the balance to some £5.554m in this financial year (2021/22) – which is below the £6m minimum level determined by full Council.

129. 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 Finance Officer is required to report on the reasons, and the action, if any, which he considers appropriate. The recommendations are included in the covering report and relate to identifying immediate in-year savings.

130. The protection of key services remains of crucial importance to the Council. However, the Transition Reserve, Economic Development Reserve and Community Safety Reserve which provided the Council with the opportunity to protect some key services over the last few years have now been exhausted, and the General Reserve will follow suit if robust action is not taken.

131. The budget report will advise further on the minimum level of reserves to be maintained in the light of the local government settlement, and current risks and uncertainties. The minimum level

of general reserves (un-earmarked) was set at £6m (Increased from £5m in 2018/19) . There remain numerous examples of the need to retain adequate reserves - many of which are identified in the risk section of this report e.g. income volatility, inflationary pressures, pandemics, dangerous structures. The minimum level of recommended reserves is unlikely to be decreased given recent experiences and the level of risk the Council faces.

Budget 2022/23 and beyond

132. The level of future government funding may be clarified shortly in the Local government Funding settlement, but until a fair funding review is completed , or an announcement made of its abandonment, the uncertainties for individual authorities will remain. This when combined with the future of business rates, demand pressures e.g. Homelessness accommodation, Council Tax support, and inflation necessitates the identification of greater savings for 2022-23 and beyond.

133. The future year projections assume that the Council receives the same or similar funding levels from the government.

134. **To achieve a balanced budget in 2022/23 minimum savings of £3.1m need to be identified on current projections.**

135. To achieve a balanced budget in 2023/24 savings of £3.3m in total need to be identified.

136. These figures do need to be treated with some caution (they could be too optimistic) given the potential impact of inflation and greater uncertainties than ever in the budgeting process. The volatility in income streams has increased in respect of the business rate retention scheme and could increase yet further should the 75% business rate retention scheme ever be introduced.

137. The Reserves policy, to be determined as part of the budget process, will continue to take account of risks, and will also need to take into account the ability of the Council to address the indicative funding gaps within the timescales identified.

138. The Council must still retain sufficient reserves to meet significant and unexpected expenditure items. The use of General Reserves severely prejudices the Council's ability to fund not only new, but also existing major redevelopment proposals. The use of the General Reserve may also be required to fund transformation initiatives and potentially further redundancy costs. The reduction in reserves if not halted will reduce the interest earned on investments – which is being used to help balance the budget.

139. The key determinants of the gap for future years include, the funding settlement 2021/22, a replacement for New Homes Bonus, Benefit Administration grant, Business rates income and appeals, inflation and interest rates, the level of savings that can be identified and actually achieved, the expenditure pressures e.g. homelessness, and the level of additional income that can be generated.

140. In view of the level of resources available in the future and beyond the Council must continue to review the level of service it can provide and transform the way it delivers those services.

141. Priority within the Council, at least in the short to medium term,Covid-19 aside, needs to be directed balancing the budget.

Options for Reducing the Deficit

142. There are a number of actions that can be taken to reduce the deficit but based on the assumption of no additional funding overall from the Spending Review in real terms, no Fair Funding Review, no 75% business rate retention, and no beneficial replacement of New Homes bonus, service reductions seem an inevitable consequence at the time of writing.

143. Some of the actions that need to be seriously considered once again, but actioned include:

a. Staff reductions – Whilst every opportunity needs to be taken to avoid losing key staff and experience, and certainly avoid compulsory redundancies, the funding reductions and expenditure pressures are such that the council has no option but to reduce staffing costs. To reduce costs by some £2m p.a. would result in an estimated loss of 40 to 70 posts (Full Time equivalents) and the costs of doing so could exceed the level of funds within Council's Redundancy Reserve.

   The Senior management restructure was partially completed and service reorganisations are either in their early stages or will need to be undertaken. These can only realistically be successful if overall workload is reduced and administrative processes are refined or removed – without reducing the vital stewardship controls in place.

b. Policy Reviews & Service Redesign - Realistic expectations of what can be achieved with reduced resources – whether it be reducing the number of waste and recycling collections, the frequency of street cleaning, inspections, funding for events, tourism spend. Some of the Council's policies and practices may need to be reviewed in order to reduce costs.

c. Asset Disposals – The Council has agreed to dispose of a number of sites e.g. Harrow Lane, but also needs to now urgently consider Mayfield E, Bexhill Road sites rather than develop all these out itself. The Council will not be in a place where it can afford to develop these sites itself if it does not balance the budget and especially so given the other capital projects it has in the pipeline. The Council will need to review other assets that could be disposed of – that are not generating income.

d. Income Generation (Energy) – where reviews show individual sites are viable there may be the potential for small income streams to be generated to at least cover the staffing costs involved.

e. Transforming Services/ Sharing Services/Resources – Whilst there are currently no plans for local government reorganisation in East Sussex the continuing need for savings may necessitate further review of existing arrangements between authorities whether there is a formal reorganisation or not. Likewise, the transformation programme within the Council needs to be refocused to achieving real financial savings.

f. Services on-line – The council has moved many services on-line and continues to refine its offer accordingly. There will be further progress during 2022/23 with more self service modules in Revenues and Benefits for example; and face to face contact will inevitably reduce.

g. Council Office Accommodation – this has reduced considerably in recent years and with changes to working practices (the Covid-19 dividend) further accommodation is being rented out both in Muriel Matters House and also in the Town Hall.

h. Council Tax Reduction Scheme – The increasing annual cost of the scheme will need to be considered by the Council and options considered to reduce it. Most Councils have had to reduce the level of support to some degree – although this Council has managed to maintain some 100% support levels for longer than the other East Sussex authorities. The Council consults on any changes. For 2022/23 the Council will not be proposing any changes to the scheme. This has consequences for ESCC, the Police and Crime Commissioner, Fire Authority and Hastings BC.

i. Discretionary Rate Relief – the Council has to provide notice to recipients if it is to change the existing scheme. The Council may well wish to consider reviewing the scheme within the next 12 months for 2023/24 given the budget position.

j. Debt Collection – Additional resources have been dedicated to this area in respect of Council Tax (partly funded by East Sussex County Council), and Non Domestic Rates

k. External Grants and Partnership working
Where, after review, the Council is no longer able to provide some services or services to the desired level, it will need to identify options and seek greater partnership working and alternative funding opportunities – where practical.

l. An immediate expenditure review (a freeze in some areas) and a recruitment freeze.

144. The review of how to try and contain the spiralling costs of homelessness and rough sleepers needs to remain at the forefront of activity.

Risk Management

145. As in previous years, numerous risks are highlighted in this strategy, and further comment is made below. To balance the budget the Council continues to seek efficiency savings, review the capital programme, review fees and charges, look for income generation opportunities and potentially identify further cuts in services and staff numbers. It will need to further prioritise its objectives and identify where it will need to make savings to balance the budget in the years ahead. The budget report in February 2023 will contain detailed recommendations on achieving a balanced budget for 2022/23, by which time the government’s funding settlement will have been received.

146. Ideally, given the continuing uncertainties around Covid-19, future pandemics, government funding, greater volatility in income streams and expenditure, etc. the Council needs to take every opportunity to strengthen reserves e.g. to cover demand pressures, income volatility, and unforeseen events and costs pressures – such as pandemics, cliff works, reservoirs, dangerous structures.

147. The Council needs to continue to invest in its people, its IT services and its assets. The Council continually seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, the level of service in contract specifications, 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 and steps are taken to mitigate the risks wherever possible and practical. The transition to a lower spending Council, by joint working, joint procurement and reduced staffing levels also poses additional risks.

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

i. Government funding, including the New Homes Bonus grant

ii. Business Rate Retention scheme – volatility thereof, and level of appeals

iii. Council Tax Reduction (Support) Scheme and Council Tax collection rates

iv. Income Streams – preservation and particularly enhancement

v. Joint working/ shared services.

vi. Staffing / Knowledge management. The loss of key staff through early retirement or redundancy, or ability to attract and retain staff.

    The quality of services provided, the adherence to financial rules and proper practices, levels of innovation, and culture of the organisation is dependent upon the ability to attract and retain experienced and knowledgeable staff. There are many factors that help ensure corporate plan objectives and outcomes are achieved e.g. good communication, training, etc. but where these are not in place, and key procedures not adhered to, service failures can result.

vii. Welfare Changes (Universal Credit and Council Tax Support Scheme).

    The Council Tax Support Scheme was introduced from April 2013 accompanied by government funding reductions of 10%. Whilst the Council mitigated much of the impact on those claiming benefits it may not be able to do so to the same degree in the future following further reductions in government support. There remains the additional risk of increased benefit payments being made in the year – the financing risk now falling on the Council. To help protect the Council a Resilience and Stability Reserve was established to help meet any unavoidable additional costs that arise in the year. This reserve was enhanced last year to help meet the impact of lower Business rate collection rates .

viii. Restructuring Costs

    In order to make savings of the magnitude required, the Council will need to reconsider what services it can provide and to what level. Further restructuring is inevitable if a sustainable budget is to be achieved in the years ahead. 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 which will continue to assist in transforming the Council to a lower spending organisation in the years ahead.

ix. Treasury Management

Investment security and level of returns, plus level of debt and repayment thereof. The exposure to interest rate movements and inflation. Given the level of borrowing, and the use of different investment products, more time is required to manage this area of activity. As the level of reserves decrease the council may need to undertake more short term borrowing to cover short term cash flows issues.

Many of the Town deal projects, if approved, will require much higher levels of borrowing in both the short and long term.

In the short term there could be very significant cash flow implications of undertaking borrowing – particularly where income or subsequent asset sales could be some years away. The timetabling of major projects will be critical.

Likewise if the Council does not address its revenue deficits it will not be able to enter into these large Capital projects – it will not have the cash or resources to do so.

x. The Economy & Inflation

The economic and financial instability in the world continues to be major risk and greater uncertainty currently exists around inflation and supply chains – pushing up construction costs in particular. With general inflation alone forecast to be above 4% for next year there are real implications for projects in the capital programme and current contracts.

xi. Income and risks arising from new initiatives e.g. housing company, social lettings agency, licensing schemes. These include added exposure for the Council to income recovery, void periods and business rate and debt liabilities for example. As a result, wherever possible, reserves should be enhanced. If this is not possible then at least they need to be preserved. The ability to add to them once depleted would be possible but at the cost of further severe service reductions.

xii. Reserve Levels

Should the government's annual funding settlement be poor, the Council may well be operating in 2022/23 with reserves below the minimum recommended levels given that the necessary savings can not be readily achieved within short timescales available.

xiii. Land Charges – responsibilities are being transferred. The Council could lose a significant element of its income in respect of this service.

xiv. Demand Pressures – e.g. homelessness, planning, welfare benefits,

xv. Climate Change

By far one of the biggest challenges facing humanity and in turn the Community and the council. The transition to a zero carbon community has significant costs and challenges – which the Council has insufficient financial resources or capacity to achieve alone.

The cost pressures should not be underestimated. For example, electric vehicle costs are generally significantly higher e.g. a large street sweeper could increase from £145,000 to £380,000, a refuse freighter from £180,000 to £430,000. In addition there are additional electric infrastructure issues or battery storage capacity costs to meet in order to recharge overnight. These costs are only partly offset by lower running costs and life expectancies.

xvi. Grant Repayments

The Council has been very successful when applying for external funding. Some of these grants may need to be repaid if the conditions/outcomes are not met. The figures involved are potentially substantial e.g. Bexhill Lower tier site.

xvii. Unforeseen Expenditure & Events

The Council has experienced a number in recent years e.g. legal claims, business rate appeals, dangerous structures, reservoir safety measures, cliff works. Climate change events can also be expected to impact with increasing frequency.

xviii. New Legislation

Changes in the Environment Act/ Waste directives on recycling and collection of food waste for example are likely to impact significantly on the Council's activities over the next four years.`

150. **The Council has a statutory duty to set a balanced revenue budget each year and this strategy seeks to highlight the major issues (in advance) in order to do so.**

Equalities and Community Cohesiveness

151. The equalities implications of individual budget proposals are the subject of an Equalities Impact Assessment (available when consultation is undertaken)**.**

Climate Change

152. The Council's Corporate Plan and strategies include actions to help tackle Climate Change, with specific initiatives included within the Council's budget – as agreed annually by full Council. There are numerous Council initiatives that currently contribute towards reducing the impact of Hastings and its residents on climate change. All initiatives and plans need to be considered in the production of the Council's corporate plan for 2022-23 and in the context of the financial resources available.

Consultation

153. The 2022/23 budget proposals will be consulted upon from the middle of January 2022 and will be considered by Cabinet on the 7 February 2022 and determined by full Council on 16 February 2022.

Contact Officer: Peter Grace, Chief Finance Officer,

Email pgrace@hastings.gov.uk

APPENDIX 1

Revenue Budget Forward Plan

Appendix G

Ref	Revenue Budget Forward Plan	2021-22 Budget £000's	2021-22 Revised Projection £000's	2022-23 Projection £000's	2023-24 Projection £000's	2024-25 Projection £000's	2025-26 Projection £000's
1	**Net Service Expenditure**	**12,968**	**12,968**	**13,492**	**13,962**	**14,441**	**14,930**
2	**Funding Commitments:-**						
3	Election Costs (bi-annually)				(70)	0	(70)
4	Pay Increase - 2021-22		220	220	220	220	220
5	National Insurance increase (1.25%)			81	81	81	81
6	West Hill Lift Closure		235				
7	Battle Road Works		525				
8	Homelessness		457	931	931	931	931
9	Sales Fees, Charges (SFC) - loss of Income		160				
10	SFC - Grant income from Government		(100)				
11	**Savings/Additional Income Identified**						
12	**Previous PIER savings**						
13	Theatre - reduced contributions			(100)	(200)	(200)	(200)
14	Land sales - Interest generated from investment of proceeds/ Use of Capital receipts in lieu of new borrowing			(75)	(75)	(75)	(75)
15	Senior Management Restructure - remaining parts		(42)	(54)	(54)	(54)	(54)
16	PIER savings - Other			(47)	(47)	(47)	(47)
17	Potential PIER savings/growth (net) at 14 October 2021		(195)	(400)	(447)	(367)	(367)
18	Income - Property			(100)	(169)	(169)	(169)
19	Income - re Schemes in Capital Programme			(10)	(603)	(608)	(608)
20	Fees and Charges			(120)	(180)	(240)	(240)
21	**Other:**						
22	Contingency Provision	500	100	300	300	300	300
23	Interest (net of Fees) & other Adjustments	1,452	1,452	1,600	1,699	1,701	1,701
24	Minimum Revenue Provision (excl. Inc Gen Adj)	1,723	1,672	1,771	2,462	2,474	2,459
25	Contribution to Reserves	723	723	723	723	723	723
26	Net Use of Earmarked Reserves	(1,864)	(1,864)	(1,864)	(1,864)	(1,864)	(1,864)
27	**Net Council Expenditure**	**15,502**	**16,310**	**16,349**	**16,669**	**17,246**	**17,650**
28	Taxbase	25,722	25,722	25,979	26,239	26,501	26,766
29	Council Tax	276.17	276.17	281.67	287.27	292.99	298.82
30	**Funding**						
31	From Collection Fund - Council Tax	(7,104)	(7,104)	(7,317)	(7,538)	(7,765)	(7,998)
32	From Collection Fund - Business Rates	(2,603)	(2,603)	(2,629)	(2,655)	(2,682)	(2,709)
33	Revenue Support Grant	(1,010)	(1,010)	(1,020)	(1,020)	(1,020)	(1,020)
34	Covid Grants Unringfenced	(699)	(699)				
35	Lower Tier Services Grant	(163)	(163)	(164)	(166)	(168)	(169)
36	New Homes Bonus	(173)	(173)	(26)	0	0	0
37	Council Tax Support Admin Grant	(165)	(165)	(165)	(165)	(165)	(165)
38	Housing Benefit Admin Grant	(398)	(398)	(368)	(340)	(362)	(362)
39	NNDR (Surplus) / Deficit	167	167	100	100	100	100
40	NNDR Pooling	(0)	(0)	(0)	(0)	(0)	(0)
41	Business Rates Section 31 Grant	(1,569)	(1,569)	(1,593)	(1,617)	(1,641)	(1,665)
42	Council Tax - Section 31 Grant	(200)	(200)				
43	Council Tax Surplus	(104)	(104)	(100)	0	0	0
44	**Contribution To General Fund**	**(14,019)**	**(14,018)**	**(13,282)**	**(13,400)**	**(13,701)**	**(13,988)**
45							
46	**Funding Shortfall / (Surplus)**	**1,483**	**2,292**	**3,067**	**3,269**	**3,545**	**3,662**
47							
48	**Use of General Reserve**	(1,283)	(1,283)	0	0	0	0
49							
50	**Use of Resilience and Stability Reserve**	(200)	(200)	(100)	(100)	(100)	(100)
51							
52	**Net Funding Shortfall / (Surplus)**	**0**	**809**	**2,967**	**3,169**	**3,445**	**3,562**

Key Assumptions

Line 1 Inflation has been assumed of 3% for 2022/23 and beyond – but only applied to contracts. Wage inflation: 2% assumed for 2022/23 and beyond plus ½% p.a. representing contractual increments.
Line 3 Local elections – the costs are budgeted for in 2022/23
Line 4 Pay increase estimated at 1.75% for 2021/22 (with a small element already built in)
Line 5 National Insurance Increase of 1.25% from April 2022
Line 6 West Hill lift closure – for repairs – resulting in lost income and repair costs
Line 7 Dangerous Structure – Battle Road
Line 8 Additional temporary accommodation costs – Budget Growth (may be higher)
Line 9 Loss of income from Sales, Fees and charges (Significant uncertainty)
Line 10 Lost Income Compensation Scheme (Government) – April to June 2021
Line 13 Pier Saving – reduced contract Cost – Theatre
Line 14 Investment Income from Sales of capital assets/ use of Capital receipts to reduce borrowing costs
Line 15 Senior Management Restructure – remaining savings (yet to be made)
Line 16 Previously identified Pier Savings – See Appendix K of budget
Line 17 PIER Savings (yet to be confirmed as part of budget)
Line 18 Additional Income from property in line with lease agreements
Line 19 Capital schemes included in the programme have an MRP cost – this line nets off the cost (the revenue that will be generated the MRP is not yet included in the Revenue budget).
Line 20 Fees and Charges – increases assumed for 2022/23 and beyond
Line 22 Contingency budget reduced to £200k General Fund, £100k Repairs and Renewals.
Line 28 Recalculation of the taxbase. Assumes a 1% increase - as the number of properties in the borough has increased and the number claiming Council Tax Support is less than previously predicted.

Line 31 A Council Tax increase of 1.99% for 2021/22 and for future years has been included for the purposes of this Strategy.

Lines 32 to 43 Funding: The local government settlement is expected in late autumn. No big increase or decrease in cash terms is anticipated, save for inflation linked increases in respect of Section 31 payments on business rates – for the purposes of this strategy.

Line 40 Business rates pooling – with other East Sussex authorities including the Fire Authority. The levels of income are projected to be near zero in 2022/23 and beyond following Covid-19. The timing of the introduction of a new funding regime by government (75% rate retention) has been delayed and is not included for future years.

Lines 48 & 50 The Council agreed to use Reserve to support the budget in 2021/22. The original projected deficit of £1.483m is anticipated to increase to some £2.292m – an increase of £809,000. This figure to be refined in the revised budget.

Line 52 Funding Gap: the predicted deficits in 2021/22 to 2025/26 assuming all PIER savings are achieved, government funding levels remain the same, income levels are maintained, and there is no recession or long term inflationary pressures. The latter 2 years of the projection are beyond the 3 year spending review period and therefore contain greater uncertainty.

APPENDIX 2

Capital Programme - Potential New Schemes

Potential - Capital Spending - What is not yet included??					
			Interest Only @3%	MRP	Total p.a
New Developments/Known issues	**Financed over (Yrs)**	£	£	£	£
Priory Street Car Park - future large scale repairs say £1.4m (2024/25)	10	1,400,000	42,000	140,000	182,000
Cliff works / Repairs (Revenue vs Capital Split??) - Spend over 2 or3 years? Plus £100k p.a. Revenue?	10	1,000,000	30,000	100,000	130,000
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 2 - 35,000 Sq Ft Factory / Separate units	40	4,540,000	136,200	113,500	249,700
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 2 - 35,000 Sq Ft Factory / Separate units	40	(2,000,000)	(60,000)	(50,000)	(110,000)
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 3 - 3 to 8 Factory Units (flexible sizes)	40	2,500,000	75,000	62,500	137,500
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 3 - 3 to 8 Factory Units (flexible sizes)	40	(1,000,000)	(30,000)	(25,000)	(55,000)
West Marina - Ex MOD/ Stamco Site	50	1,500,000	45,000	30,000	75,000
Bexhill Rd - Lower Tier Site £6.9m flood, £28.8m development	50	33,460,080	1,003,802	0	1,003,802
Bohemia - Leisure Centre	40	30,000,000	900,000	750,000	1,650,000
Bohemia - Cultural Centre	40	30,000,000	900,000	750,000	1,650,000
Town Deal (Castle, Town centre Core, Priory Street) - HBC funded elements	40	44,553,000	1,336,590	1,113,825	2,450,415
Mayfield E - HBC develop (38 Units)	40	9,000,000	270,000	225,000	495,000
Bexhill Rd Site - HBC develop - (16 Units)	40	4,000,000	120,000	100,000	220,000
Foreshore - concrete repairs - susbtantial - commencing 2-3years	Various				
Vehicle replacements/Electrification	various				
MuGA resurfacing	10	38,000	1,140	3,800	4,940
Total		158,991,080	4,769,732	3,313,625	8,083,357

It should be noted that the above list is not exhaustive and excludes a number of areas e.g. DestiSmart Tram, housing on Bohemia site. Likewise, the costings are indicative only. Where no MRP is included it is assumed that no units are retained by the Council.

					Appendix 3
PIER Outcomes		Revised			
		2021-22	2022-23	2023-24	2024-25
	Cost Centre	£'000	£'000	£'000	£'000
PIER Savings identified in previous years for 2022/23 (not included elsewhere)					
Senior Management Restructure (remainder - £260k p.a.in total when completed)	Various	0	54	54	54
Theatre - Reduced Contribution	20249	0	100	100	
Land sales - Interest generated by proceeds from land sales/Use of capital receipts	Various	0	75	75	75
Rental Space - Muriel Matters House			8	8	8
Total Prior year identified savings for 2020-21 onwards	**Sub-total**	**0**	**229**	**229**	**129**
PIER Savings identified for 2021/22 onwards following review of 2020/21 final accounts and 2021/22 budgets					
Off Street Car Parking - Business Rates Appeal - Priory St	20287	111	26	26	26
Off Street Car Parking - Premises Insurance	20287	11	11	11	11
Off Street Car Parking - cash collection contract	20287	5	5	5	5
Hastings Country Park - Parking Charges - volume increase	20312	7	7	7	7
Cemetery & Crematorium - premises Insurance	20303	3	3	3	3
Refuse Collection - fees and charges - volume	20293	11	10	10	10
Audit - Supplies and services	tbd	13	13	13	13
DSO - Waste and Cleansing service - Equipment and materials	20323	20	20	20	20
Greenwaste - additional income - volume increase	20296	35	35	35	35
Parks & Gardens - Routine Mtc - s106 profiling	20310	0	20	20	20
Parks & Gardens - Premises Insurance	20310	5	5	5	5
Parks & Gardens - IT link to Alexandra park removed	20310	2	2	2	2
Building Surveyors - Revised Budget	20105	5	5	5	5
Adminstrative Buildings - Muriel Matters House - Business Rate Appeal	20117	8	8	8	8
Non-distributed Costs - unfunded pension costs - decrease	20125	102	102	102	102
Hastings Contact Centre - Team leader post	20113	53	39	39	39
Housing Management & admin - reduced postage costs	20172	4	4	4	4
Renewable Energy Solutions - hired and contracted services	20321	49	50	50	50
Savings	**Sub-total**	**446**	**365**	**365**	**365**
Budget Adjustments Identified					
Waste and Environmental Enforcement Team - Lower Fixed Penalty income	20297	(25)	(25)	(25)	(25)
Legal Division - Lower level of costs being recovered	20106	(10)	(10)	(10)	(10)
Regeneration Activity - one off income removed	20208	(25)	(25)	(25)	(25)
Staffing - Planning and Enforcement		0	(84)	(84)	(84)
	Sub-total	**(60)**	**(144)**	**(144)**	**(144)**
Savings - including Selected Expendiure Freeze in 2021/22 (Nov 2021 - March 2022)					
Hastings Contact Centre - Reduced hours by a staff member	20113	10	0	0	0
External Funding - meeting Staffing costs	various	25	0	0	0
Admin Bldgs - Town Hall - £500 pwk/ Rental of Rooms	20116	10	0	0	0
Transformation team - Freeze recruitment - 5 months	20115	17	0	0	0
Corporate Personnel Expenses - revised training budget	20112	30	0	0	0
Legal - Freeze on Recruitment (beyond debt recovery staffing)	20106	50	0	0	0
Revenues And Benefits - (Including, Doc Mail £15k, Supplies and Services £10k)	20110	25	0	0	0
Waste and Environmental Enforcement Team - Wardens - recruitment of 2 posts postponed	20297	25	0	0	0
Together Action -part freeze on budget	20298	10	0	0	0
Housing - new external funding of rental deposits	20187	100	0	0	0
White Rock Area Development - supplies and services	20209	113	0	0	0
Other - yet to be confirmed	tbc	50	0	0	0
Additional 2021/22 savings and selected Expenditure Freeze	**Sub-total**	**465**	0	0	0
PIER Savings for 2022/23 Budget - to be determined as part of the budget process		0	0	0	0
Net Overall Savings/ (Growth)		**851**	**450**	**450**	**350**