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Cabinet Agenda

Monday, 7 August 2023 at 6.00 pm

Council Chamber, Muriel Matters House, Breeds Place, Hastings, East Sussex, TN34 3UY. Please enter the building through the Contact Centre entrance via the seafront.

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CABINET

3 JULY 2023

Present: Councillors Barnett (Chair), Evans (Vice-Chair), Batsford, Cannan, Roark, Rogers, and Willis.

In attendance: Jane Hartnell (Chief Executive), Victoria Conheady (Deputy Chief Executive), Mary Kilner (Chief Legal Officer), Kit Wheeler (Chief Finance Officer), Amy Terry (Property and Commercial Assets Manager) and Simon Jones (Deputy Chief Finance Officer)

8. APOLOGIES FOR ABSENCE

None received.

The Leader of the Council announced that from August the Cabinet will introduce a 30 minute public question time. No notice will be required for questions, and answers will be provided in writing if they can't be answered at the meeting.

9. DECLARATION OF INTERESTS

None received.

10. MINUTES OF LAST MEETING

RESOLVED – that the minutes of the meeting held on 5th June 2023 be approved as a true record.

11. WHITE ROCK THEATRE OPTIONS

Due to high public interest the Leader of the Council called this item for discussion first.

The Deputy Chief Executive presented a report outlining the options explored by officers for the future of the White Rock Theatre. The existing lease and management contact with Trafalgar Theatres Ltd comes to an end on 31st January 2024. Options explored include a contract extension, a retender of contracts, sale, lease only and mothballing.

Following financial and legal advice, and the fact that the council does not wish the theatre to close, officers recommend marketing the theatre for lease.

Councillor Carr was present and asked what liabilities the council has for theatre staff and why was the report was not considered earlier?

Councillor Foster was present and asked if the lease could be extended for a longer period?

The Deputy Chief Executive responded that there is a clause in the contract which outlines a cap to the council's liability and that is budgeted for. The council was advised that it was not possible to market the lease six months before the end of the current contract.

There are limits to the length of management contracts can be awarded. The council is open to both short and longer term lease opportunities.

Councillor Batsford proposed approval of the recommendations, seconded by Councillor Evans.

RESOLVED (unanimously):

1. Cabinet note the options analysis undertaken on the future of the White Rock Theatre from the end of January 2024.

2. Cabinet instruct the Property & Commercial Assets Manager, under existing delegated powers, and in consultation with the Deputy Chief Executive and the Lead Councillor for Health and Culture to:
a) market the theatre building for lease
b) instruct specialist leisure agents to conduct the marketing and due diligence process
c) agree terms for lease with a successful bidder to enable continuous use of the building for its intended use from 1st February 2024

Reasons:

1. The council needs to make an urgent decision about the future use of the White Rock Theatre from the end of January 2024 when the current lease and management contract with Trafalgar ends.

2. Officers have conducted an options appraisal to identify the best legal and financially viable options open to the council for the future of the White Rock Theatre beyond January 2024.

12. TREASURY MANAGEMENT OUTTURN REPORT FOR 2022/23

The Deputy Chief Finance Officer presented a report outlining the Treasury Management activities and performance of the last financial year.

The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities for 2022/23.

The council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and this figure was £71.1 million for 2022/23. This was less than budgeted due to the availability of capital receipts and therefore no further borrowing was undertaken in 2022/23.

No recommendations have been made to amend the Treasury Management Strategy.

Councillor Foster asked what stubbornly high inflation means for the council's risk position?

The Chief Finance Officer responded that higher interest rates mean the council's investments will do better. The council will always look at the best time to borrow in consultation with external advisers. When interest rates start come down the council may look to more long-term external borrowing.

Councillor Barnett proposed approval of the recommendations, seconded by Councillor Willis.

RESOLVED (unanimously):

Cabinet considers the report

Reasons:

To ensure that Members are fully aware of the activities undertaken in the last financial year, that Codes of Practice have been complied with and that the Council's strategy has been effective in 2022/23.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management covering a review of the current financial year i.e. the Mid-year review.

13. FINANCIAL MONITORING OUTTURN REPORT FOR 2022/23 - TO END OF MARCH 2023 (PERIOD 12)

The Deputy Chief Finance Officer presented a report to provide a summary of the outturn position for services at the end of March 2023.

The statement of accounts is still being completed and therefore the figures are subject to change. External audit of the 2020/21 accounts is still to be completed and the audit of the 2021/22 and 2022/23 accounts has not yet started.

The Chief Finance Officer drew attention to appendix 4 of the report, Medium Term Financial Plan (MTFP) update, which highlights that the council has achieved 80% of its budget saving targets.

Councillor Carr asked what measures will be taken to ensure budgets stay on target and when will councillors see a costed plan for savings that need to be made?

Councillor Barnett noted that significant savings have been realised on revenue spending and the council's reserves are over £1 million better off than previously forecast. All officers should be thanked for this achievement.

Councillor Barnett proposed approval of the recommendations, seconded by Councillor Batsford.

RESOLVED (unanimously):

Cabinet notes the contents of the report, and the actions within the conclusion and management action section.

Reasons:

To assist the Council in understanding the outturn financial position for the year end and particularly areas of over and under spend. The outturn position for 2022/23 can be used to inform budget monitoring for the 2023/24 financial year.

14. EXCLUSION OF THE PUBLIC

RESOLVED:

That the public be excluded from the meeting during the consideration of the items of business listed below because it is likely that if members of the public were present there would be disclosure to them of "exempt" information as defined in the paragraphs of schedule 12A to the Local Government Act 1972 referred to in the relevant report.

15. UNIT AT BEXHILL ROAD RETAIL PARK

The Chief Executive presented a report to update Cabinet on lease renewal negotiations.

RESOLVED (unanimously):

Cabinet note the rent review settlement

Reasons:

It was necessary to agree terms prior to reporting to Cabinet as we were bound by Court procedures and any delay could have resulted in less favourable terms.

(The Chair declared the meeting closed at 7.30pm)

Report To:	**CABINET**
Date of Meeting:	**7TH August 2023**
Report Title:	**Response to Local Government Association Finance Peer Review report**
Report By:	**Jane Hartnell, Chief Executive**
Key Decision:	N
Classification:	**Open**

Purpose of Report

To set out the council's response to the report of the Local Government Association's Finance Peer Review Team of the review undertaken in March 2023.
To set out the actions taken since the review and further actions planned.

Recommendation(s)

That:

1. **Cabinet thanks the Local Government Association Peers for their time and input to assisting the Council to address its financial challenges and the impact of the local housing crisis which is impacting on the budget so significantly.**
2. **That Cabinet note the actions taken since the Peer review in March.**
3. **That Cabinet agree the council's response and the future actions set out in the table in appendix A.**

Reasons for Recommendations

1. The Budget Council report in February 2023 set out the issues impacting on the Council's financial stability. Most notably these are as a result of the massive increase in costs of providing temporary accommodation for those homeless people to whom we owe a legal duty.

2. The Budget report also set out the council's strategy to tackling the budget deficit, address the housing budget spend and identified that if these plans are achieved, the council would be in a position of financial stability by 2025/26.

3. In order to provide the council with confidence in its plans, the Local Government Association was invited to visit in March 2023 and undertake a Finance Peer Challenge. The Peer Team's final report and recommendations have been received and are presented together with the council's response. Details are included in the table in appendix A of the progress made to date in addressing the council's financial challenges, implementing the LGA recommendations as well as further planned actions.

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Background

1. The council highlighted as part of the 2023/24 budget report that the financial pressures facing the authority have been made significantly worse by the housing crisis which is particularly acute in the town. The council has a legal duty to house homeless people in temporary accommodation, and the costs of meeting this ever-increasing bill is putting the council's viability at risk.

2. Since the beginning of austerity in 2010, when funding for district councils has continually been reduced, the council has made significant staff and service cuts as it adjusted to the reduced direct support from the government:

   Budget levels

   In 2010/11 the council's net budget was £22.9m.

   By 2022/23 this had fallen by 28% to £16.5m.

   During this period direct government support (grants) has reduced from £15.9m in 2010/11 to £1.5m in 2022/23, a reduction of over 90%.

   Staffing levels

   In 2010 the council employed 442 full time equivalent (FTE) staff

   That figure is now much lower at 284 FTE. (NB This figure also includes the 34 new staff employed after bringing street and building cleansing services back in house).

   For direct comparison purposes we now employ 192 less FTE staff than we did in 2010.

3. During this time the council has diversified to find new sources of income generation from rents, new services, fees and charges and investments in regeneration schemes. This income, whilst helpful has struggled to match the funding lost from government and keep pace with increased service demand, additional responsibilities placed on council's which are only funded for a short time, and latterly inflation, increased energy costs and wage increases.

4. Since 2010 the council has stopped or significantly reduced the scale of many services it can no longer afford to provide (e.g. CCTV monitoring, play, empty homes, tourism and marketing, some public toilets etc) and has required its staff to continue to meet increasing service demands, but with many less people.

5. Councillors and senior management recognise the pressure that all staff are working under and are extremely grateful for their commitment and continued dedication to public service and in particular their support for the most vulnerable people in our society.

6. In order to reduce costs and be more efficient, the council underwent a detailed transformation programme and changed where and how it works. The number of buildings

occupied has been rationalised, many services are provided more efficiently and cheaper on-line, and flexible working changes have helped to recruit and retain ‘hard to attract’ professional staff.

7. These savings and efficiencies enabled the council to be financially sustainable, but the pandemic in parallel with the housing crisis has changed the landscape both quickly and dramatically.

8. In 2019 the council spent c.£730,000 on temporary accommodation, in 2022/23 this rose to £4.5m and is predicted to rise to £5.6m in 2023/24. The council’s net budget is only £16.5m so the ongoing impact of this unavoidable cost is clear.

9. With the potential of being issued with a Section 114 Notice (legally required when the council cannot balance its budget, unlike the NHS and other parts of the public sector councils are not allowed to carry a deficit) the Budget Council in February 2023 committed to focussing all efforts to positively changing this financial position.

10. It must be noted that the circumstances that caused some other councils to issue a Section 114 Notice are NOT the same here. The issues facing HBC are not because of ill-advised investments or a questionable approach to debt management.

11. The council’s Treasury Advisors have told councillors that the council’s management of, and prudent approach to treasury management and risk appetite has provided a very good basis for dealing with the current financial difficulties.

12. It is in this context, and following the stark warnings to Budget Council in February that the council invited the Local Government Association to give a critical friend view of the council’s plans to address its financial situation.

Local Government Association Finance Peer Challenge

13. The council invited the Local Government Association to undertake a Finance Peer Challenge in March 2023.

14. The scope of the Peer Challenge was to consider the five themes which form the core components of all Finance Peer Challenges and at the council’s request to also provide feedback on our plans to address the impacts of the Housing crisis.

    The core component themes are:

    Financial leadership: Does the authority have plans for its long-term financial sustainability, which are owned by its members and officer leaders?

    Financial strategy, planning & forecasting: Does the authority understand its short and long-term financial prospects?

    Decision-making: Are key decisions taken in the understanding of the financial implications, risks, and options?

    Financial outcomes: Are financial results (including those of the Council’s investments and transformation projects) monitored and acted upon so as to realise the authority’s intentions?

Partnership & innovation: Is finance at the cutting edge of what the authority is working to achieve, working with partners, and seeking innovative approaches?

15. In undertaking peer challenges, the LGA stress that they are '*improvement focused; are not an inspection, and the process is not designed to provide an in-depth or technical assessment of plans and proposals. The peer teams use their* '*experience and knowledge of local government to reflect on the information presented to them by people they meet, things they see and materials that they read.'*

16. Following the review, the LGA team composed their report which contains a number of recommendations and comments. Officers worked with LGA colleagues post-review to supply additional evidence and ensure factual corrections were made where necessary. This meant there was a longer than anticipated timeline between the review date and the report being published.

17. The delay has led to increased speculation and media interest in the report and its contents, but it must once again be stressed that this was a key piece of work requested by the Council and fully supported throughout the process by staff and Councillors. There was also no delay in the actions initiated by the council in response to the discussions held in March.

Peer Team's Final Report

18. The full report is appended (Appendix B) and includes an executive summary, key recommendations and feedback on each of the themes considered during the process.

19. The report contains figures that were correct at the time of the visit in March 2023. For completeness key figures are updated here:
    - The growth in numbers of temporary accommodation clients has continued to rise as the council is implementing the measures that will reduce them in time – there are currently 522 households (over 1000 people) living in TA at an estimated cost of £5.6m per annum.
    - The balance of the General Reserves balance is now £7.6m but forecast to reduce to £3.7m by the end of the financial year.

Action Taken since Peer Review visit

20. A whole-council focus has been set on achieving financial stability and achievement of the housing costs reduction plans. Further expert advice was sought on our plans to reduce the cost of the temporary accommodation and these additional recommendations have now also been included in the priority work plans for the year.

21. Since the Peer Team visit, the council has worked swiftly to secure the right capacity and skills are in place to implement these improvement plans. Challenges experienced nationally in attracting skilled staff with experience in these areas have been overcome, and a full complement of additional housing officers are now also in place.

22. The year-end outturn position for 2022/23 has shown good early progress. The council was expecting to use £3.2m of reserves to balance its budget, however through a combination of in-year savings, reduced borrowing costs and better than expected investment performance the council has reduced this need by over £1m.

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Recommendations

23. The Peer Challenge team made 13 recommendations. The council accepts each of the recommendations.

24. The table below sets out details of the actions taken to date to implement the recommendations and those which are planned.

Conclusion

25. Hastings Borough Council requested the LGA finance peer review team to provide advice and assurance as part of its commitment to doing everything possible to improve its financial position.

26. Lead Councillors and Senior Officers wish to place on record their thanks to the review team for their constructive and helpful comments and recommendations as part of this process.

27. The officer team and councillors are all continuing to work extremely hard together to focus on achieving financial stability and reduce the costs of temporary accommodation. However, the ability to achieve this will require further difficult decisions and it is likely that more services will need to be scaled back or paused until the council is on a strong financial footing again. The speed at which this can be achieved also depends on a number of external factors – the length of the cost-of-living crisis for example.

28. A recent media report identified that the numbers in temporary accommodation nationally are at a 25 year high. Officers are working with a number of other councils who are facing similar financial challenges as a result of temporary accommodation cost pressures. Collectively these councils are lobbying government to recognise that the challenges faced by councils like HBC are as a direct result of the housing crisis and more support for communities like Hastings is desperately needed.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Response to report and recommendations & further actions list agreed	Cabinet	7th August 2023	Jane Hartnell - Chief Executive

Wards Affected

(All Wards);

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)	Yes
Risk Management	Yes
Environmental Issues & Climate Change	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	Yes
Anti-Poverty	Yes
Legal	Yes

Additional Information

N/A

Officer to Contact

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Appendix A

LGA Recommendation 1 - Immediate management actions to bring in and embed more stringent financial controls and accountability to urgently reduce spending.

Actions Taken

1. Lead Councillors have agreed the focus on Finance and Housing as priorities for 2023/24

2. No new expenditure to be agreed during 2023/24 unless is required by law or for health and safety reasons.

3. Refresher training sessions scheduled for all budget managers – ensuring robust monitoring and accountability for every £1 of expenditure

4. Dedicated meetings for SLT (Senior leadership Team) to focus on savings targets, both current year and future years savings, budget monitoring variances and identification of cost pressures as early as possible to understand the strategic impact across the organisation and allow for quicker decision making.

5. Senior Leadership Team produced a detailed delivery plan for the use of resources, focus and time to ensure there is capacity to implement the Financial Stability and Housing cost reduction plans which incorporate the advice sought from external advisers.

6. Half day workshop with Cabinet tested this delivery plan and agreed that the priority activities in 2023/24 will be limited to:
    a. Financial stability and avoidance of S114.
    b. Reducing costs of housing and homelessness activity.
    c. New Statutory and on-going/previously made decisions and/or committed legal and contractual responsibilities.
    d. New statutory responsibilities – where unavoidable e.g. new Environment Act requirements for waste
    e. Maintaining a healthy and committed workforce - investing in our people.
    f. Actions to implement budget savings.
    g. Climate Emergency response actions already planned.
    h. Delivery of major regeneration schemes already committed to.
    i. Maintaining effective 'business as usual' (BAU) services
    j. Service specific projects that impact on ability of BAU services to help address costs of our homeless and temporary accommodation costs.

    All other Corporate Plan targets will be re-programmed

7. Leader has explained to all councillors that there is no capacity to consider new proposals for services/activities at present and the 'councillor ideas' process to be suspended for 6 months – all new ideas will be captured and considered when resources allow.

8. Paused recruitment of vacant posts in the new senior structure.

9. Finance team restructure underway to increase capacity for strategic work and more resources to enable dedicated senior accountant focus on housing budget management. The team are also implementing a business partnering model to work even closer with service managers to provide expert financial management support.

10. New interim Audit arrangements in place to enhance our audit capacity, resilience, and deliverability. This is essential for governance, compliance, and probity assurance. Also dedicated additional resources allocated to improve the speed of responses, now typically turning around responses to queries on the day.

11. All-staff meeting updated on current situation and senior managers tasked with identifying further savings and resources to re-direct to housing activities.

Further Actions planned

- Training for staff and councillors and work on understanding budgets and forecasts
- Briefings for all-Cllrs to ensure full understanding of the challenges and how they can play their part in this challenging but achievable process.
- Finance system Unit 4 update scheduled – this is essential to ensure we have accurate and accessible financial information and to make potential future efficiencies across the organisation.

Recommendation 2

A comprehensive review of all service budgets should be undertaken identifying areas of non-essential/non-statutory expenditure that could be stopped or significantly reduced.

Actions Taken/Underway

1. Heads of Service working with managers and service accountants to complete line by line budget review

2. Non-essential spend and activity identification reviews underway

3. Review of earmarked reserves is underway to determine if these are required or use of these can be delayed.

4. Capital Asset Management Strategy project underway with CIPFA (Chartered Institute of Public Finance & Accounting) – to identify the council's assets, how best to use them and if there are any assets that can be identified as surplus or change of use / sale. This will inform the Capital Programme budget, Strategy and future borrowing requirements. This thorough analysis of asset performance and income generation will also inform the Treasury Management borrowing requirements strategy.

5. Phase 2 officer restructure underway and will be completed by early August 2023

6. August 7th Cabinet to receive land disposal recommendations (if land is sold the money gained can be used to reduce borrowing costs and reduce the burden on revenue budgets)

Further Actions planned

- Quarterly outturn meetings with Chief Finance Officer, Chief Executive and budget holders to monitor savings achievements and in year monitoring forecasts
- SLT (Senior leadership Team) to bring forward savings proposals, to include impacts of reducing/ceasing non-statutory services and/or reallocating resources to priority work reducing the TA costs
- Updated MTFP (Medium Term Financial Plan) to published monthly and reported to Cabinet.

Recommendation 3 - Swiftly change the organisational narrative, financial sustainability is the priority, focus on what is within your control. The organisation needs to stop relying on general revenue reserves to fill significant budget gaps going forward.

Actions Taken/Underway

1. Update to all staff immediately following Peer Challenge setting out the Team's advice that our plans are achievable, but we need to increase the pace and have a total focus on achieving the savings, costs reductions and new income set out in the budget.

2. Draft year-end outturn for 2022/23 report presented to Cabinet 03/07/23 and Overview and Scrutiny 12/07/23, the report highlighted:
    a. A more positive outturn than previously expected as part of budget setting.
    b. If it were not for the overspend on Temporary Housing costs the Council achieved an underspend of nearly £1m. (In part due to capital financing changes and better than expected investment returns, but also savings bought forward by services)
    c. a forward plan projection of the financial position (part of MTFP) and performance against savings target (this will be included in future reports)

3. Overview and Scrutiny Committee will also focus their work programme on Financial stability and Housing.

Further Actions planned

- Budget savings of £1m to be achieved over period 2023/24 to 2025/26 – first tranche to be considered in autumn 2023.
- By implementing improvement plans and the 'invest to save/avoid cost' measures – reduce the Housing budget requirement by £3m during 2023/24 to 2025/26
- Clarify with staff and public that HBC's financial challenges are as a result of structural issues in the housing market, not a as a result of factors which caused other councils to issue S114 notices.
- Monthly Finance reports to Cabinet and regular timely reports to Overview and Scrutiny Committee.
- Training for Councillors and staff on the assurance and governance roles of the oversight bodies – Internal Audit, the Audit Committees and Overview and Scrutiny.

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- Review of all reserves completed – setting out the reserves the council has as ‘earmarked’ and what an appropriate level of reserves are required for the proper management and mitigation of risk.

Recommendation 4 - The housing overspend needs to be tackled immediately: engage an interim Head of Housing to focus on this task; urgently implement the recommendations in the LGA desktop housing review; adopt an agile approach to Housing delivery and savings, with clear lines of accountability.

Actions Taken

1. An Interim Head of Housing was appointed and is driving the programme forward with support of the Deputy Chief Executive who is spending 50% of her week on this priority. The rest of the Senior Leadership Team SLT are also prioritising their respective teams’ contributions to achieving the plans. Some colleagues have been focussing on reducing the number of households in TA whereby a final decision hasn’t been made within 56 days of the homelessness duty being owed, and other Housing staff are working overtime to provide extra capacity to speed up decision making.

2. The new permanent Head of Housing starts in August, he is already engaging at key opportunities. He brings excellent skills and innovation experience having worked in both the local authority and a national third sector organisation at a senior level.

3. Two unsuccessful rounds of recruitment were undertaken to fill the 6 new Housing officer posts agreed by Council. The third round has seen success and the posts are now filled. These additional posts are essential for reducing costs by creating capacity within the housing team as well as carrying out home visits to prevent homelessness for those being asked to leave by family/friends through negotiation/mediation.

4. Further advice was received from the LGA Housing Advisors Programme (HAP) expert who conducted a review and made 15 recommendations which are being implemented at pace. These together with the LGA Diagnostic review set out the holistic blueprint for cost reduction of temporary accommodation, together with clarity about the KPI’s/targets and performance measures that are being used to monitor our progress. This work is being project managed by a new Recovery Manager who started in post on 1st July.

5. Housing and homelessness taskforce board meetings have moved to quarterly to enable staff to focus on delivering the actions recommended by external advisers.

6. Excellent progress is being made on the housing acquisitions programme – the focus is on acquiring accommodation to use as an alternative to privately owned and expensive nightly paid TA. (NB Although the LGA Peer team questioned this approach, the LGA Housing Advisors Programme expert advice supported the council’s approach to purchasing property as Temporary Accommodation. The council has developed a thorough business case and are monitoring the success of this programme very carefully.

7. Real-time data being used to inform budget and performance monitoring and to track trends.

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8. A weekly casework management process has been implemented to support client moves to more affordable TA and determine final decisions where these are outstanding.

9. Improved inter-departmental communication and systems changes have been made to streamline and track income recovery from the benefits system to cover eligible costs of TA.

10. New interim Directors have been appointed to the Hastings Housing Company and are conducting a detailed review of the current arrangements and are assessing the future options for HHC. (Note that the HHC was not set up for, nor was it, or is it intended to be used for provision of temporary accommodation.)

Further Actions planned

- Recruitment and retaining of staff to essential housing roles remains biggest risk to success, this is therefore being monitored closely.
- Monthly monitoring of housing delivery plan and savings reported to councillors.
- Options paper for future of Hastings Housing Company being developed by newly appointed Directors.

Recommendation 5 - Streamline arrangements for managing projects, creating clearer accountability, and improving business cases

Actions Taken

1. Housing and homelessness taskforce board meetings have moved to quarterly to enable staff to focus on delivering the actions recommended by external advisers.

2. Quarter 1 monitoring focussed on key milestones to ensure progress in achieving objectives for financial stability and reducing housing budget spend on TA.

3. Overview and Scrutiny Committee agreed to also focus on these two priorities.

4. Regular monitoring arrangements determined by individual project boards based around risk and reported centrally with highest risk areas being brought to SLT attention.

5. Review being undertaken of all Housing grants and projects to ensure compliance and to assess if there are any additional resources that can be identified to help with the issues faced by the Council.

Further Actions planned

- All non-essential projects not resulting in financial benefit paused or stopped

- No new ideas / projects to be considered whilst the focus remains on delivering the projects currently in progress

Recommendation 6 - Plans to deliver the savings targets should be prepared and monitored, on a monthly basis with clear actions and accountabilities assigned. More visible leadership is needed on the key financial challenges and housing.

Actions Taken

1. Savings plan under-development with staff teams encouraged to contribute proposals

2. New additional finance resources have been recruited and appointed to help support Audit backlog, IFRS16 legislation introduction and also to back fill resource to allow dedicated Housing Finance Accountant to work full time on supporting the service

3. Savings are one of the key areas of focus for the Overview and Scrutiny Committee and regular reporting will be provided in terms of progress to highlight any risk areas that are unlikely to achieve their targets and what mitigation measures are being taken

4. Changes in Cabinet roles to include the Council leader now also the lead Cabinet member for Finance to demonstrate more visible leadership and regular meetings with Chief Finance Officer

Further Actions planned

- Monthly finance report submitted to Cabinet which includes updated MTFP and savings monitoring appendices
- Invest to Save business cases bought forward where additional resources can reduce costs or increase income
- Chief Finance Officer (CFO), Leader and Chief Executive to continue to lobby for fairer funding and allocations around budgets and specifically in relation to Housing costs
- CFO to continue to meet with counterparts across the country who are facing similar challenges with regards to the Housing crisis and shortage of accommodation, to provide a consistent message to Government departments about the current state of the market and impact on Councils

Recommendation 7 - Regular budget monitoring and savings reports to Cabinet, with all member briefings on the key challenges from the S151 Officer and the Chief Executive.

Actions Taken

1. Treasury Training provided to Cllrs in May on the Treasury Management, borrowing requirements and Financial Management Code.
2. Introduction meeting with new Internal Auditors and Councillors, with further training sessions scheduled

3. One to one sessions arranged with budget managers as part of regular monthly meetings with finance colleagues.

4. CFO updated staff at all staff briefing around financial position and implications of S114 notice and what is needed for avoidance

Further Actions planned

- CIPFA to provide briefings for Cllrs and senior staff in relation to implications of issuing of a S114 notice and ways to avoid.
- Cabinet receiving regular financial reports, highlighting the latest and most up to date forecasts of savings, outturn and pressures

Recommendation 8 - Prepare a more detailed Medium Term Financial Strategy (MTFS) covering at least the period from 2023/24 to 2026/27, undertaking scenario analysis of all income sources including council tax, business rates, income from fees and charges.

Actions Taken

1. MTFS updates informed by latest monthly monitoring set out in regular Finance update reports.

2. 2024/25 Budget setting progress already underway – Financial Resilience Working Group tasked to develop early budget proposals for consideration by councillors and engagement with staff.

3. CFO discussed with colleagues across the county impacts of legislation changes (Waste), Council Tax, Inflation, Staff Pay awards and other key MTFP assumptions to inform the development of the strategy with as much detailed information as possible.

Further Actions planned

- Updated MTFP including detailed scenarios and full explanations to be published in the next quarter
- Budget proposals to be considered by Lead Councillors and then shared more widely

Recommendation 9 - Make changes to enable asset disposals to happen. This should include having clear accountability and decision making on disposals.

Actions Taken

1. The council tendered for external resources to undertake the work to develop an asset management strategy. No responses were received to the first two exercises. CIPFA Property Services have been approached directly and are now undertaking the work. This will provide a full diagnostic and recommendations of how assets can be best utilised by November.
2. A review of opportunities previously included in the Land and Property disposal programme is currently underway to explore early opportunities for achieving capital receipts circa £1m – £3m, decisions to be bought to Cabinet in August 2023 – these capital receipts could potentially be used for the transformation of the housing and TA services and reduce costs.

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3. Solution identified for future of White Rock Theatre – seeking interest in leasing the building, will reduce subsidy payable by HBC but retain use of building as a theatre.
Further Actions planned • An additional resource for the Property and Assets team will be recruited to increase capacity to deliver the new strategy.

Recommendation 10 - Review delegations and governance, so that where appropriate decisions can be delegated and enacted more swiftly, with the appropriate due diligence.
Actions Taken
1. Review is underway across all service areas.
Further Actions planned • Recommendations to be bought to Cabinet or Full Council as appropriate.

Recommendation 11 - Strengthen strategic political governance and oversight to reflect corporate priorities and the scale of the financial challenge. Consider the governance arrangements for projects and programmes.
Actions Taken
1. The Financial Sustainability Programme and Housing Improvement Programme both have detailed action plans which are being delivered. With the new monitoring arrangements in place (see rec 7) the frequency of Project Board meetings has been reduced to quarterly or by exception. This has freed up officer time to focus on delivering agreed plans. 2. A sub-group of the Financial Stability Working Group will oversee the property and assets work (see rec. 9) to facilitate pace of decision making. 3. Following the early retirement of the Chief Auditor Cabinet has approved contracting ESCC to provide Audit Management for the remainder of 2023/24 – this will bring a fresh perspective and opportunity to review our governance arrangements learning from practice elsewhere. 4. Leader of the Council has taken responsibility for the Finance Portfolio, and the previous Lead for Finance now has responsibility for Housing. 5. Ongoing briefing of DLUHC about progress HBC are making to address financial stability and lobbying to secure HM Government's attention on issues out of the council's control e.g. levels of Local Housing Allowance in Hastings (makes private renting unaffordable for people on low incomes), support for people who have supported accommodation needs not currently being met.
Further Actions planned

- Further work with other councils who are also in a similar position to ourselves around the housing crisis to enable sharing of what has worked for them in their circumstances, lessons learnt and to gather evidence for a joined up and louder and voice to central government for the support the sector needs to manage the housing crisis.

Recommendation 12 - Take advantage of existing partnerships and further develop them to meet the financial challenge (for example, East Sussex procurement hub for Temporary Accommodation)

Actions Taken

1. HBC is leading work with London Borough of Hillingdon who are sharing their experience of using a dynamic purchasing agreement to secure experienced suppliers for the provision of temporary accommodation (TA). This should enable a reduced and fixed cost to the council, better quality accommodation for those who need to live in TA, reduce the need to use bed and breakfast-type accommodation and provide certainty for quality TA providers who are more likely to remain in the market and work with the council.

2. Also exploring the initiatives developed at London Borough of Newham and their collaborative work with Waltham Forest, Redbridge & Enfield

3. Leader announced at Full Council a focus on working with landlords, identifying those keen to help resolve the local housing crisis in partnership with the council, and to include caravan and holiday park owners in these conversations.

4. Work has commenced with Eastbourne and Lewes Councils on identification of opportunities for maximising economies of scale.

Further Actions planned

- East Sussex Procurement Hub are engaged in the block booking project as it is the intention to encourage all councils in East Sussex to sign up to this same approach
- The new Head of Housing has extensive experience in working with the VCS and will explore how they can collaborate in partnership to help reduce the numbers needed to access TA and to provide cheaper alternatives.

Recommendation 13 - Break down silos in order to get the whole organisation working together to meet the financial sustainability challenge

Actions Taken

1. New Senior Leadership team appointed, including new Deputy Chief Executive and Chief Finance Officer/Section 151 officer confirmed in post.

2. Staff meeting June 2023 focussed on financial stability and housing priority and how staff will be contributing to achieving objectives. Explained that non-essential activities and spend will be paused, so that all can focus on delivery of services to most vulnerable whilst directing all-council effort to reducing costs of TA.

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3. Work of the Housing Task Force has already seen significant improvements in collaboration and joined up working and innovation and new ideas progressed by staff in housing and benefits teams.
Further Actions planned • On-going staff engagement and reassurance that the council can, as the LGA Team suggested, achieve its objectives by working together and at pace.

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Finance Peer Challenge

Hastings Borough Council

20th - 22nd March 2023

Feedback 31st March 2023

Feedback report

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Local Government Association company number 11177145 Improvement and Development Agency for Local Government company number 03675577

1. Executive summary

The appointment of the new S151 Officer (Chief Finance Officer) has been welcomed across the organisation by both officers and members. In interviews, many people highlighted the approach of the new S151 Officer. They noted that in comparison to the previous officer holder, there is a more open and collaborative approach.

The new s151 Officer has made a number of changes to procedures, reports, and outputs. Importantly, monthly monitoring reports are now produced. This is a positive step forward and will help the organisation to get more control over spending. It will also allow the organisation to track and monitor savings more effectively.

The Finance Department is seen as being good at operational matters including a much-improved budget monitoring process. However, in interviews the peer team heard that the department is perceived to be lacking at a strategic level, with one interviewee stating that: “finance is focused on detail and is not strategic.”

In focus groups the peer team heard that budget managers generally find the finance system to be “clunky”. In the view of the peer team, consideration should be given to rolling out a user training programme so that staff feel more confident using the system and are given advice on how to use it most effectively.

The peer team found that the Finance Department needs to reconsider its approach and improve engagement, particularly when the Council is developing external funding bids and business cases for investment.

The peer challenge team reviewed the council’s finances, budget reports and financial monitoring information. Having reviewed these documents and discussed them with interviewees, the peer challenge team are very concerned about the council’s financial sustainability, the low level of unallocated revenue reserves and the record on achievements of savings and overspends in housing. Unless the revenue budget position is addressed as a matter of urgency, with savings promptly realised, then the S151 Officer will be left with little choice but to issue a section 114 (s114) notice to the Council at some point during the 2023/24 financial year.

The issuing of a s114 notice is an extremely serious matter; it will severely impact the Council, both in terms of its ability to deliver for residents as well as its wider

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reputation. All necessary steps should be taken now to reduce expenditure and make savings promptly.

The peer challenge team are of the view that the Council has the means to address the budget and savings problems if it works together to swiftly implement the cost reduction programme, and promptly realises planned savings.

The Council must find a way to maintain programme management discipline whilst working at pace. The peer challenge team found that the current pace of decision making and implementation on key projects is slow which is delaying the achievement of key savings. Agile decision making, implementation and delivery are critical to the Council's recovery.

In interviews the peer challenge team heard that the political leadership is passionate about housing issues but does not consider the financial situation sufficiently. One interviewee stated that: "compassion from the political leadership is not balanced to the reality of the financial position". The peer challenge team reviewed information on the council's housing service spending, and it is clear that the Council cannot continue to spend at the current rate, with repeated significant overspends. Difficult decisions such as: reducing Housing/Homelessness spend; selling surplus assets; controlling costs; reviewing capital programme spending plans, need to be made promptly. The peer challenge team also believe that a comprehensive review of revenue budgets needs to be taken.

The political decision making at Hastings Borough Council needs to be streamlined and focused on: reducing costs; controlling spending; achieving savings and rebuilding the revenue reserves. Aspirational projects need to be temporarily put on hold whilst focus is given to tackling the revenue budget problems and putting the council on a sustainable financial footing.

The Cabinet needs to urgently focus on the key strategic issues facing the Council, namely the budget challenge, the housing overspend and low revenue reserves.

2. Key recommendations

There are a number of observations and suggestions within the main section of the report. The following are the peer team's key recommendations to the council:

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2.1. Recommendation 1

Immediate management actions to bring in and embed more stringent financial controls and accountability to urgently reduce spending.

2.2. Recommendation 2

A comprehensive review of all service budgets should be undertaken identifying areas of non-essential/non-statutory expenditure that could be stopped or significantly reduced.

2.3. Recommendation 3

Swiftly change the organisational narrative, financial sustainability is the priority, focus on what is within your control. The organisation needs to stop relying on general revenue reserves to fill significant budget gaps going forward.

2.4. Recommendation 4

The housing overspend needs to be tackled immediately: engage an interim Head of Housing to focus on this task; urgently implement the recommendations in the LGA desktop housing review; adopt an agile approach to Housing delivery and savings, with clear lines of accountability.

2.5. Recommendation 5

Streamline arrangements for managing projects, creating clearer accountability, and improving business cases

2.6. Recommendation 6

Plans to deliver the savings targets should be prepared and monitored, on a monthly basis with clear actions and accountabilities assigned. More visible leadership is needed on the key financial challenges and housing.

2.7. Recommendation 7

Regular budget monitoring and savings reports to Cabinet, with all member briefings on the key challenges from the S151 Officer and the Chief Executive/Managing Director.

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2.8. Recommendation 8

Prepare a more detailed Medium Term Financial Strategy covering at least the period from 2023/24 to 2026/27, undertaking scenario analysis of all income sources including council tax, business rates, income from fees and charges.

2.9. Recommendation 9

Make changes to enable asset disposals to happen. This should include having clear accountability and decision making on disposals.

2.10. Recommendation 10

Review delegations and governance, so that where appropriate decisions can be delegated and enacted more swiftly, with the appropriate due diligence.

2.11. Recommendation 11

Strengthen strategic political governance and oversight to reflect corporate priorities and the scale of the financial challenge. Consider the governance arrangements for projects and programmes

2.12. Recommendation 12

Take advantage of existing partnerships and further develop them to meet the financial challenge

2.13. Recommendation 13

Break down silos in order to get the whole organisation working together to meet the financial sustainability challenge

3. Summary of the peer challenge approach

3.1. The peer team

Peer challenges are delivered by experienced elected member and officer peers. The make-up of the peer team reflected the focus of the peer challenge and peers were selected on the basis of their relevant expertise. The peers were:

- Senior Officer Peer – Dale Philipson, Deputy Chief Executive, St Albans City and District Council

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- Chief Finance Officer Peer – Wayne Layton, Havant Borough Council
- Member Peer - Cllr Terry Paul (Lab), Newham Council
- Member Peer - Cllr Neil Stock (Con), Tendring District Council
- Member Peer - Cllr Julian German (IND), Cornwall Council
- LGA Finance Improvement & Sustainability Associates (FISA) – Andrew Hardingham
- LGA Peer Challenge Manager – Angela Kawa

3.2. Scope and focus

The peer team considered the following five themes which form the core components of all Finance Peer Challenges. These areas are critical to councils' performance and improvement.

1. **Financial leadership**: Does the authority have plans for its long-term financial sustainability, which are owned by its members and officer leaders?
2. **Financial strategy, planning & forecasting**: Does the authority understand its short and long-term financial prospects?
3. **Decision-making**: Are key decisions taken in the understanding of the financial implications, risks, and options?
4. **Financial outcomes**: Are financial results (including those of the Council's investments and transformation projects) monitored and acted upon so as to realise the authority's intentions?
5. **Partnership & innovation:** Is finance at the cutting edge of what the authority is working to achieve, working with partners, and seeking innovative approaches?

In addition to these questions, the council asked the peer team to provide feedback on **Housing,** as the substantial overspend in this area is creating significant financial pressure.

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3.3. The peer challenge process

Peer challenges are improvement focused; it is important to stress that this was not an inspection. The process is not designed to provide an in-depth or technical assessment of plans and proposals. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read.

The peer team prepared by reviewing a range of documents and information in order to ensure they were familiar with the council and the challenges it is facing. The team then spent three days onsite at Hastings Borough Council, during which they:

- Gathered information and views from more than 32 meetings, in addition to further research and reading.
- Spoke to more than 51 people including a range of council staff together with members and external stakeholders.

This report provides a summary of the peer team's findings. In presenting feedback, they have done so as fellow local government officers and members.

4. Feedback

4.1. Financial Leadership

The Council has relied on the use of reserves to balance its budget to the extent that by the end of 2024/25, unless drastic action is taken, the revenue reserves will be exhausted. Prior to the appointment of the current s115 Officer financial information provided to members has been opaque. This has led to limited scrutiny by members before major decisions are taken. For example, there appears to have been limited scrutiny of the original decision to enter into a contract to build a hotel in the town.

In 2021/22 the Council incurred a significant overspend on homelessness services of £174k, which has grown to a forecast overspend of £2.029m in 2022/23. The Council has overseen a steady growth in the number of temporary accommodation clients rising from 240 in April 2022 to 513 in March 2023. This growth in demand has placed significant pressure on the revenue budget.

The peer challenge team reviewed savings plans. Savings have been identified for

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2023/24 through to 2025/26 but the detail that sits behind the headline numbers is not clear. For example, the Council has agreed to incrementally reduce the homelessness budget by £1m per year from 2023/24. The peer challenge team are of the view that there is not a detailed action plan sitting behind this savings target. This combined with the current rise in demand suggests these savings are unlikely to be achieved as planned without swift and decisive action. This needs to be addressed as a matter of urgency.

The peer challenge team found that there is a lack of clarity regarding the ownership of the capital programme and how schemes are included. The capital programme, strategy and treasury management strategy need to be reviewed and joined up. The financing of the capital programme has a significant impact on the revenue budget in terms of debt interest and the minimum revenue provision. Therefore, the Council needs to be cautious and review the capital programme which includes some legacy schemes. Capital projects need to be properly appraised and should only proceed where the initiatives reduce the revenue deficit or deliver key corporate priorities. The Council also need to ensure that it can afford to proceed with the projects, particularly in light of the Council's financial position and the increase in costs and inflation.

The Council have approached DLUHC (Department for Levelling Up, Housing and Communities) to discuss support for housing pressures. Unless the Council can demonstrate it is taking action to improve the financial sustainability of the organisation, DLUHC are unlikely to be convinced to provide additional or exceptional financial support, if the council were to request this.

The political leaders and senior management team should urgently focus their attention and efforts, on addressing the very substantial budget issues. The peer challenge team very strongly believe that the priority for the senior leaders needs to be getting the council's finance on a sustainable footing.

The peer challenge team reviewed the current governance and project management arrangements. The team believe that the current arrangements could be improved through streamlining to enable the senior leadership of the organisation to deliver more effectively. The project management arrangements could be more agile and create better opportunities for more effective scrutiny. Currently a lot of officer time and capacity is spent tracking and documenting rather than delivering. A greater

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focus on the outcomes and delivery would assist the council to move more swiftly with key projects. It would also provide greater clarity for members when scrutinising progress on key projects.

4.2. Financial strategy, planning & forecasting

The peer challenge team reviewed the Council's budget, budget documents, audit, and financial monitoring information. The General Reserves balance at 1st April 2022 were £9.698m. The Council have agreed that the minimum level of general reserves should be £6m.

The opening balance of the General Fund Reserve for 2023/24 stands at £4.838m, which is £1.162m below the agreed £6m minimum level of reserves. The approved budget for 2023/34 included a planned use of £2.530m of reserves leaving the general reserve balance at £2.308m at the end year of the 2023/24 financial year (i.e. 31 March 2024). The peer team noted that this figure is predicated on no in-year overspends, assumptions on the pay award, interest payments on borrowing, inflation and the £1m reduction in homelessness. As a consequence, additional pressures are likely to occur in-year. For example, if inflation or borrowing costs are higher than expected or the savings on homelessness are not fully achieved.

Therefore, unless urgent action is taken by the Council, it is likely the organisation will have utilised all of the General Fund Reserve by March 2024. Although the Council holds a number of earmarked reserves, these are either unusable or of insufficient value to be considered as a funding solution. This is a very concerning situation that needs to be addressed urgently.

The peer challenge teams saw evidence that the Council's financial controls are showing signs of improvement under the new S151 Officer, but these controls are not fully developed yet.

The peer challenge team reviewed audit reports and interviewed auditors. The audit process has been difficult. The peer challenge team noted that external audit has an unsigned opinion for 2020/21 and the Council hopes this can be signed-off by the end of April 2023. However, in interviews the peer challenge team heard that information from the Council is slow in coming forward; with knowledge concentrated

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in just a few people. There are significant external audit delays across the local government sector, there also appear to be some local issues in Hastings which needs to be addressed to ensure the accounts are signed-off.

The lack of audit 'sign off' of the statutory accounts for 2020/21 and 2021/22 is causing some concern amongst Finance staff. Preparing the statutory accounts is a complex task dependent upon a number of detailed transactions and the reconciliation of data held in different systems. There are some transactions that still need to be finalised which may affect the General Fund (after the completion of the peer challenge the council received external advice and confirmed there is no adverse impact on the General Fund).

It is noteworthy that the external auditors for Hastings Borough Council have flagged substantial concerns about the financial sustainability of the organisation going forward. The peer challenge also noted that a report from the S151 Officer on the Medium-Term Financial Strategy was discussed at Cabinet in September 2022 and this report also raised concerns about the council's financial sustainability. The peer challenge team shares these concerns and urge the Council to act swiftly to address the concerns.

The peer challenge team reviewed the Medium-Term Financial Strategy (MTFS). The Council does not have a robust enough MTFS. A draft budget covering years 2023/24 to 2026/27 was included in the budget papers approved by Council in February 2023. The assumptions for 2024/25 are not explicit and appear in some cases to be understating the likely position.

The current MTFS requires £1.5m of reserves to be used in 2024/25 to balance the budget. There does not appear to be any explicit allowance for inflation on pay or other similar costs. Provision has been made for annual increases in council tax of 2% as well as a 1% year-on-year increase in the council tax base. There is no explanation accompanying these assumptions. Government grants are assumed to remain at the 2023/24 level, including the admin support grants for council tax and housing benefit. Fees and charges are projected to generate additional income of £367,000 rising to £734,000 over 3 years, no details have been provided in the MTFS on how that will be achieved.

The Cabinet were presented with a draft MTFS in September 2022 which included a

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recommendation to present an updated MTFS in October 2022. This has yet to be presented.

The peer challenge team recommend that the Council prepares a MTFS covering at least the period from 2023/24 to 2026/27. The Council should undertake scenario analysis of all income sources including council tax, business rates and income from fees and charges. The new MTFS should include a plan to replenish useable and general reserves.

The peer challenge team also recommend a comprehensive review of all service budgets be undertaken, identifying areas of non-essential and non-statutory expenditure that could be stopped, or as a minimum reduced. This will enable the Council to have confidence in the budget gap.

Plans to deliver the savings targets already included in the MTFS should be prepared, approved, and monitored on a monthly basis, with clear actions and accountabilities assigned. This will help the council to deliver the savings that are needed to put the council on a sustainable financial footing.

4.3. Decision making

The peer challenge team considered the arrangements for holding officers to account for delivery and found that they were not clear. Collective responsibility was often quoted by officers and councillors in interviews, but there are instances where the Chief Executive is shown on project documentation as holding responsibility for a project activity, rather than overseeing or driving delivery. The view of the peer challenge team is that this dilutes the effectiveness of boards which should be holding others to account for delivery.

The Strategic Overview and Planning Board (SOAPB) is an effective engagement tool, but does it help the organisation to achieve the key aims and ensure things are being delivered? Does it provide effective oversight for Cabinet Members? The peer challenge team recommends that the Council considers reviewing this body, what it does, and what the alternative means of Cabinet Member oversight on delivery could be.

In October 2022 the Council received a desktop review from a senior LGA housing

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officer peer. This review included clear recommendations to help the Council tackle its homelessness problem, and as a consequence reduce pressure on its general fund budget. The Council has created a Housing Homelessness Taskforce, the peer challenge team acknowledged there have been some good outcomes as a result of the taskforce. However, the peer challenge team found that the taskforce has not addressed a number of the recommendations from the LGA housing desktop review and as a consequence budgets are still overspending.

In interviews, the peer challenge team heard from people across the organisation, the general feeling appears to be that whilst some savings have been found spending continues and demand continues to grow. There is considerable scepticism amongst senior managers and finance staff about the achievability of the budget savings (an incremental £1m per year). The peer challenge team is also concerned that Council needs to act swiftly to deliver the savings otherwise the savings target will not be achieved.

The peer challenge team is concerned that the Council's approach of buying property to house the homeless, will add pressure to the capital financing budget, with a knock-on effect for the revenue budget. The Council has identified purchasing property as a way of alleviating the current housing budget pressure. This pressure is in part due to the use of expensive temporary accommodation. Whilst purchasing property will create capacity, this will not be enough to combat the housing overspend. A more holistic approach is needed with the focus on addressing costs and the overspend, by managing demand and preventing homelessness.

The peer challenge team were also concerned by the decision under a previous Head of Paid Service, previous S151 Officer, and previous Leader, to enter into an agreement to build and then lease (under a forward funding arrangement) a hotel within the town. The peer challenge team reviewed the documentation provided by the Council and are of the view that the short-term return on investment is now unclear given the current economic circumstances, and may actually constitute a cost/loss of income in the short to medium-term, with a return in the longer-term. This will need to be factored into the base budget. In response to these concerns, the Council told the peer team that they have ongoing discussions with the other party and these discussions have been positive and the town does not currently have sufficient hotel provision. The peer challenge team encourages the Council to

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continue to explore the available options in relation to this contract, to minimise costs and maximise benefits in so far as is possible. The peer team also encourages the council to learn lessons from this and ensure that future projects have appropriate flexibilities which take into account changes in circumstances.

4.4. Financial outcomes

The peer challenge team considered the Council's project and programme management. The Council has a comprehensive approach to programme and project management. However, there is a disproportionate amount of staff capacity and staff time associated with this comprehensive approach. This approach to programme management appears to be stifling activity and delivery. The transformation programme and project plans seen by the review team list a wide range of actions and tasks with associated detail, many of which appear to be 'business as usual' rather than transformational. There is no indication or ranking of the priority projects that deliver financial savings or reduce demand for services. Many of these projects are capital. Whilst the thoroughness of this approach is laudable the Council should consider its effectiveness in delivering the desired outcomes and whether this approach is the best way to use staff capacity. Focusing staffing resource on priority areas for change that deliver financial savings for the Council will be more likely to deliver the type of change required to provide financial stability.

The peer challenge team noted that the Council has prepared a brief for consultants to undertake a full review of assets, this was agreed in July 2022. At the time of the peer challenge the brief had yet to be issued to prospective bidders for the work. In the meantime, the Council's ability to generate income from an asset disposal programme is being hampered. As a consequence, its ability to utilise capital receipts to deliver sustainable projects is being severely restricted.

The peer challenge team found that the Council's ambitions are not aligned with its financial circumstances, and this leads to frustration from Councillors. The Council needs to prioritise its efforts to balance political aspirations with economic and financial realities. The focus should be on those activities that can provide a financial benefit and support the attainment of longer-term community outcomes.

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The peer challenge team were concerned that the Council's programmes and processes have not yielded the expected and planned for savings. One-off, non-recurring income has helped show an improved position, but the underlying financial challenges have not been addressed. This must change going forward. The council needs to ensure that planned savings are delivered swiftly and that there are contingencies for any unexpected pressures that may occur in-year.

The peer challenge team reviewed the reporting of the capital programme and found that it is inconsistent with the homelessness strategy. There is a disconnect between the homelessness strategy, capital programme and the revenue budget. The costing of the purchase of houses/flats to house homeless people is not properly reflected in a capital programme and strategy. The strategy should also connect to the Treasury Management strategy and funding requirements. Furthermore, this should also which be reflected in the revenue budget in terms of interest and Minimum Revenue Provision on borrowing.

The link between the homeless strategy and the financing of the Housing company also needs greater explanation. £10m is being diverted to the acquisition of property by the Council for homeless people. But is the acquisition of property the right strategy to tackle the homelessness issue, particularly in light of the growing overspend in housing and the impact on the revenue budget of borrowing to buy homes? The peer challenge team are of the view that there needs to be a shift in the Council's approach towards managing demand, preventing homelessness, and finding other ways to support people who are at risk. Buying property needs to be seen as only one part of the plan to tackle the homelessness issue, with greater focus on alternative ways to support people. For example, with small grants for rental deposits, signposting to voluntary sector organisations, ensuring people are claiming the correct benefits, supporting people to find work etc.

The peer challenge team noted the lack of audit 'sign-off' of the statutory accounts for 2020/21 and 2021/22. The peer challenge team also noted there are some transactions that need to be finalised.

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4.5. Partnership & Innovation

The Council is seen as a good partner by its neighbouring councils and other partners such as the voluntary sector. The peer challenge team heard in a number of interviews that the Council is open and willing to consider partnerships.

On procurement the peer challenge team found that the Council has been slow to respond to opportunities for collaboration, but this has improved very recently. For example, some council services, such as Housing, have been unaware of the opportunities for using the East Sussex Procurement Hub to full effect, and are only now aware of the possibility of using a Dynamic Purchasing System via the hub. This could help the Council achieve better value for money for temporary accommodation. It could also replace more expensive options such as spot purchase of accommodation.

The peer challenge team are of the view that more can be done to utilise the Council's partnerships with other local authorities, public sector organisations such as the NHS, and the voluntary and third sector. Working with partners on some of the key challenges facing the local authority and the local area could also help the organisation to meet its budget challenge. The Council needs to do less, but can partners do more? Particularly on housing and cultural activities.

4.6. Housing

The peer challenge team reviewed key documents on housing and the housing company. These documents included plans, savings targets, the LGA desktop housing review, relevant Cabinet, and budget papers. The peer challenge team also interviewed staff working on housing, the Senior Management Team, and Cabinet Members. The team found that there are two key issues to be addressed regarding housing:

1. The Hastings Housing Company
2. The housing service and the budget overspends in this service

The Council owns a housing company (Hastings Housing Company). The company

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will undertake trading in three areas:

- Investment of up to £5m per annum for three years for the purchase and provision of housing on the open market for private sector rent.
- The acquisition of residential property for rent from developers in lieu of capital receipts it would receive as part of wider regeneration proposals.
- Development or the receipt of housing on land owned or purchased by the council, for sale or rent.

The Council has lent the Hastings Housing Company £5m on an interest-only basis in order to finance the above objectives. The interest payment (£0.260m) due for 2022/23 is at risk due to the letting agent being unable to recover sums that are due. During the peer challenge, finance staff reported that they are unable to locate key documentation concerning the loan.

A report containing recommendations regarding the structure and the future direction of the housing company was prepared for members in November 2021. At the time of the peer challenge the report had not yet been included on a Cabinet agenda for discussion.

The peer challenge encourages the Council to consider reviewing the business case for the Hastings Housing Company and whether this is the most appropriate delivery model at this time. The housing company currently only holds social housing, there is no requirement for the Council to hold social housing in a company although it does mean the properties are not subject to right-to-buy. The peer challenge team noted that this is an expensive way to hold property given the commercial premium on borrowing. The Council is also a registered provider which means that it can access the Affordable Homes Grant. The housing company is not a registered provider and therefore the grant available cannot be claimed by the company.

The housing service overspend is the largest budget pressure the Council is facing. The peer challenge team strongly believes that this overspend needs to be urgently addressed with a clear action plan that is swiftly implemented. The Council has a target to achieve £3m savings over the next three years. The Council needs to urgently implement the recommendations from the LGA desktop housing review, with clear actions and quick implementation of changes to realise the savings. The new

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allocations policy being a key example of where urgent action is required now. This is one of the key changes needed to manage demand and bring down overspending in this area.

The peer challenge team also believes that there needs to be a more strategic view of the homelessness issue. Who are the council housing and why, is it the most cost-effective method to support people? The Council should explore whether other support be given to people who present as homeless and see if there are opportunities to work with the County Council and other partners on this issue. The Council should consider what are the pathways to get people out of the system and prevent homelessness. The peer challenge team suggest that the Council review the use of the Homeless prevention grant and ensure that all initiatives are being considered that help to prevent homelessness. The peer challenge team urges the Council to move from meeting the housing demand to managing it and where possible preventing homelessness.

The peer challenge team were unclear on the Council's the procurement strategy for temporary accommodation and housing more generally. The peer challenge team were not presented with a strategy document or clear plan for procurement in this area. As a result, the Council is using the more expensive approach of spot-purchasing temporary accommodation to address housing demand. As stated elsewhere in this report the peer challenge team believe that this situation could be improved by using the East Sussex procurement hub to change the approach and realise savings.

5. Next steps

It is recognised that senior political and managerial leadership will want to consider, discuss, and reflect on these findings.

Both the peer team and LGA are keen to build on the relationships formed through the peer challenge and further support can be discussed. In the meantime, William Brooks Principal Adviser for the Southeast, is the main contact between your authority and the Local Government Association. William Brooks is available to discuss any further support the council requires: william.brooks@local.gov.uk.

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Report to: **Cabinet**

Date of Meeting: **07 August 2023**

Report Title: **Treasury Management Update – 2023/24 Quarter 1**

Report By: **Simon Jones (Deputy Chief Finance Officer)**

Purpose of Report

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

Recommendation(s)

The Cabinet is asked to recommend the following to Full Council:

1. Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.

Reasons for Recommendations

To ensure that Members are fully aware of the activities undertaken in the last quarter, that Codes of Practice have been complied with and that the Council's strategy is effective and doesn't currently need revising.

Under the Code adopted the Full Council are required to consider the report and any recommendations made. There will be a further report forthcoming on Treasury Management for 2023/24 including the Mid-year Review, Quarter 3 Treasury Management Update Report and Outturn Report.

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Introduction

1. The following economic update and interest rate forecasts have been provided by the Council's Treasury Management Advisors, Link Group.

Economics update

2. The first quarter of 2023/24 saw:

- A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
- CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

3. The economy has weathered the drag from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

4. The fall in the composite Purchasing Managers Index (PMI) from 54.0 in May to a three-month low of 52.8 in June (>50 points to expansion in the economy, <50 points to contraction) was worse than the consensus forecast of 53.6. Both the services and manufacturing PMIs fell. The decline in the services PMI was bigger (from 55.2 to 53.7), but it remains consistent with services activity expanding by an annualised 2%. The fall in the manufacturing PMI was smaller (from 47.1 to 46.2), but it is consistent with the annual rate of manufacturing output falling from -0.8% in April to around -5.0%. At face value, the composite PMI points to the 0.1% q/q rise in GDP in Q1 2023 being followed by a 0.2% q/q gain in Q2 2023.

5. Meanwhile, the 0.3% m/m rise in retail sales volumes in May was far better than the consensus forecast of a 0.2% m/m decline and followed the robust 0.5% m/m rise in April. Some of the rise was due to the warmer weather. Indeed, the largest move was a 2.7% m/m jump in non-store sales, due to people stocking up on outdoor-related goods. But department stores also managed to squeeze out a 0.6% m/m rise in sales and the household goods sub-sector enjoyed a reasonable performance too. Overall, the figures were far better than analysts had expected.

In addition, the GfK measure of consumer confidence rebounded from -27 to a 17-month high of -24 in June.

6. The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Our central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Our colleagues at Capital Economics estimate that around 60% of the drag on real activity from the rise in rates has yet to bite, and the drag on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

7. The labour market became tighter over the quarter and wage growth reaccelerated. Labour demand was stronger than the consensus had expected. The three-month change in employment rose from +182,000 in March to +250,000 in April. Meanwhile, labour supply continued to recover as the size of the labour force grew by 303,000 in the three months to April. That was supported by a further 140,000 decline in inactivity as people returned to work from retirement and caring responsibilities (while inactivity due to long-term sick continued to rise). But it was not enough to offset the big rise in employment, which meant the unemployment rate fell from 3.9% to 3.8%

8. The tighter labour market supported wage growth in April, although the 9.7% rise in the National Living Wage on 1st April (compared to the 6.6% increase in April last year) probably had a lot to do with it too. The 3myy rate of average earnings growth reaccelerated from 6.1% to 6.5% (consensus 6.1%) and UK wage growth remains much faster than in the US and the Euro-zone. In addition, regular private sector wage growth increased from 7.1% 3myy to 7.6%, which left it well above the Bank's forecast for it to fall below 7.0%. Overall, the loosening in the labour market appears to have stalled in April and regular private sector wage growth was well above the Bank's forecast.

9. CPI inflation stayed at 8.7% in May (consensus 8.4%) and, perhaps more worryingly, core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

10. This suggests the Bank may have more work to do than the Fed or ECB. Indeed, the Bank of England sounded somewhat hawkish in the June meeting. This came through most in the MPC's decision to step up the pace of hiking from the 25bps at the previous two meetings. The 7-2 vote, with only two members voting to leave

rates unchanged at 4.50%, revealed support for stepping up the fight against high inflation.

11. That said, the Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". Moreover, the Committee did not strengthen its forward guidance that any further rate hikes would be conditional on the data. However, it looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. We still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, we think rates are more likely to peak between 5.50-6.00%. Our forecast is also for rates to be cut in the second half of 2024, and we expect rates to then fall further than markets are pricing in.

12. Growing evidence that UK price pressures are becoming increasingly domestically generated has driven up market interest rate expectations and at one point pushed the 10-year gilt yield up to 4.49% in late June, very close to its peak seen after the "mini-budget". Yields have since fallen slightly back to 4.38%. But growing expectations that rates in the UK will remain higher for longer than in the US mean they are still more than 70 bps above US yields. While higher interest rates are priced into the markets, the likely dent to the real economy from the high level of interest rates is not. That's why we think there is scope for market rate expectations to fall back in 2024 and why we expect the 10-year PWLB Certainty Rate to drop back from c5.20% to 5.00% by the end of this year and to 4.20% by the end of 2024.

13. The pound strengthened from $1.24 at the start of April to a one-year high at $1.26 in early May, which was partly due to the risks from the global banking issues being seen as a bigger problem for the US than the UK. The pound then fell back to $1.23 at the end of May, before rising again to $1.28 in the middle of June as the strong core CPI inflation data released in June suggested the Bank of England was going to have to raise rates more than the Fed or ECB in order to tame domestic inflation. However, sterling's strong run may falter because more hikes in the near term to combat high inflation are likely to weaken growth (and, hopefully, at some point inflation too) to such a degree that the policy rate will probably be brought back down, potentially quite quickly, as the economic cycle trends downwards decisively. This suggests that additional rate hikes are unlikely to do much to boost the pound.

14. In early April, investors turned more optimistic about global GDP growth, pushing up UK equity prices. But this period of optimism appears to have been short-lived. The FTSE 100 has fallen by 4.8% since 21st April, from around 7,914 to 7,553, reversing part of the 7.9% rise since 17th March. Despite the recent resilience of economic activity, expectations for equity earnings have become a bit more downbeat. Nonetheless, further down the track, more rate cuts than markets anticipate should help the FTSE 100 rally.

MPC meetings 11th May and 22nd June 2023

15. On 11th May, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 25 basis points to 4.50%, and on 22nd June moved rates up a further 50 basis points to 5.00%. Both increases reflected a split vote – seven members voting for an increase and two for none.

16. Nonetheless, with UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

17. Of course, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has already hiked short-term rates to a range of 5.00%-5.25%, but a further increase is pencilled in for July, whilst the ECB looks likely to raise its Deposit rate at least once more to a peak of 3.75%, with upside risk of higher to come.

Interest rate forecasts

18. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

19. The latest forecast, made on 26th June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.

20. You will note that the Link forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

21. The current and previous PWLB rate forecasts below are based on the Certainty Rate.

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

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Link Group Interest Rate View	24.05.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

22. LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

23. The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A summary overview of the future path of bank rate

24. Link's central forecast for interest rates was previously updated on 25th May and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

25. Moreover, Link also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged. Link's current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.

26. In the upcoming months, Link's forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine and whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.

27. On the positive side, consumers are still estimated to be sitting on excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments

PWLB RATES

28. Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.

29. Link view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

The balance of risks to the UK economy

30. The overall balance of risks to economic growth in the UK is to the downside.

31. Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, the rising gilt yields we have seen of late).

- **The Bank of England** increases Bank Rate too fast and too far over the coming months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.

- **A broadening of banking sector fragilities,** which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

32. Upside risks to current forecasts for UK gilt yields and PWLB rates: -

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

- **The pound weakens** because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.

- Longer-term **US treasury yields** rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.

- Projected **gilt issuance, inclusive of natural maturities and QT,** could be too much for the markets to comfortably digest without higher yields compensating.

Annual Investment Strategy

33. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Full Council on 8 February 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

    - Security of Capital
    - Liquidity
    - Yield

34. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

35. As shown by the charts below and the interest rate forecasts above, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.

Creditworthiness.

36. There have been few changes to credit ratings over the quarter under review. However, Officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

Investment counterparty criteria

37. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

CDS prices

38. For UK banks, these have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

Investment balances

39. The average level of funds available for investment purposes during the quarter was £32.6m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £3.8m core cash balances for investment purposes (i.e., funds available for more than one year).

40. The table below provides a snapshot of the investments/deposits held at 30 June 2023 (excluding those with CCLA).

Counterparty	Yield (%)	Start Date	End Date	Principal (£)	Term
Australia & NZ BCG Ltd	4.75	17/05/2023	17/08/2023	5,000,000	Fixed
DBS Bank Ltd, London	4.97	17/05/2023	17/11/2023	5,000,000	Fixed
Goldman Scahs	5.24	01/06/2023	01/12/2023	5,000,000	Fixed
Helaba Landesbank Hessen	4.56	06/06/2023	06/07/2023	5,000,000	Fixed
Northern Trust	4.08	13/02/2023	-	4,000,000	Call
Morgan Stanley	4.12	20/03/2023	-	5,000,000	Call
Lloyds Bank - Call Account	4.40	-	-	1,500,000	Call
Barclays	1.00	-	-	23	Call
Natwest	1.00	-	-	6,147	Call
Lloyds Gen	1.31	-	-	1,901,796	Call
			Total	**32,407,966**	

41. The weighted average return of the portfolio at 30 June 2023 was 4.43%.

42. Investment performance can be compared against the Sterling Overnight Index Averages to evaluate performance. There is a choice of using the forward looking (term) benchmarks and the backward-looking benchmarks.

43. The forward-looking benchmark reflects where the market has moved to over time, whereas the backward-looking benchmark reflects where the market was positioned when investments were placed.

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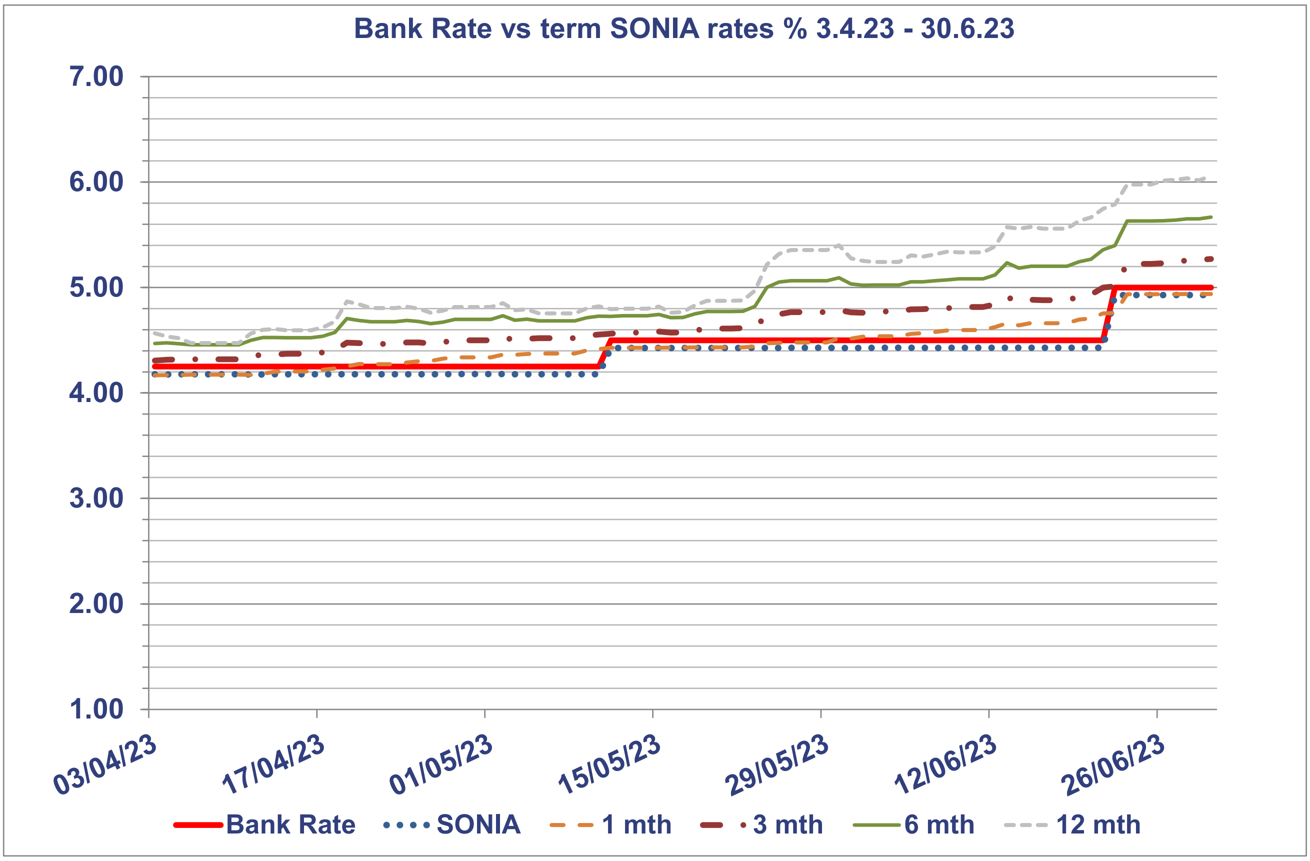
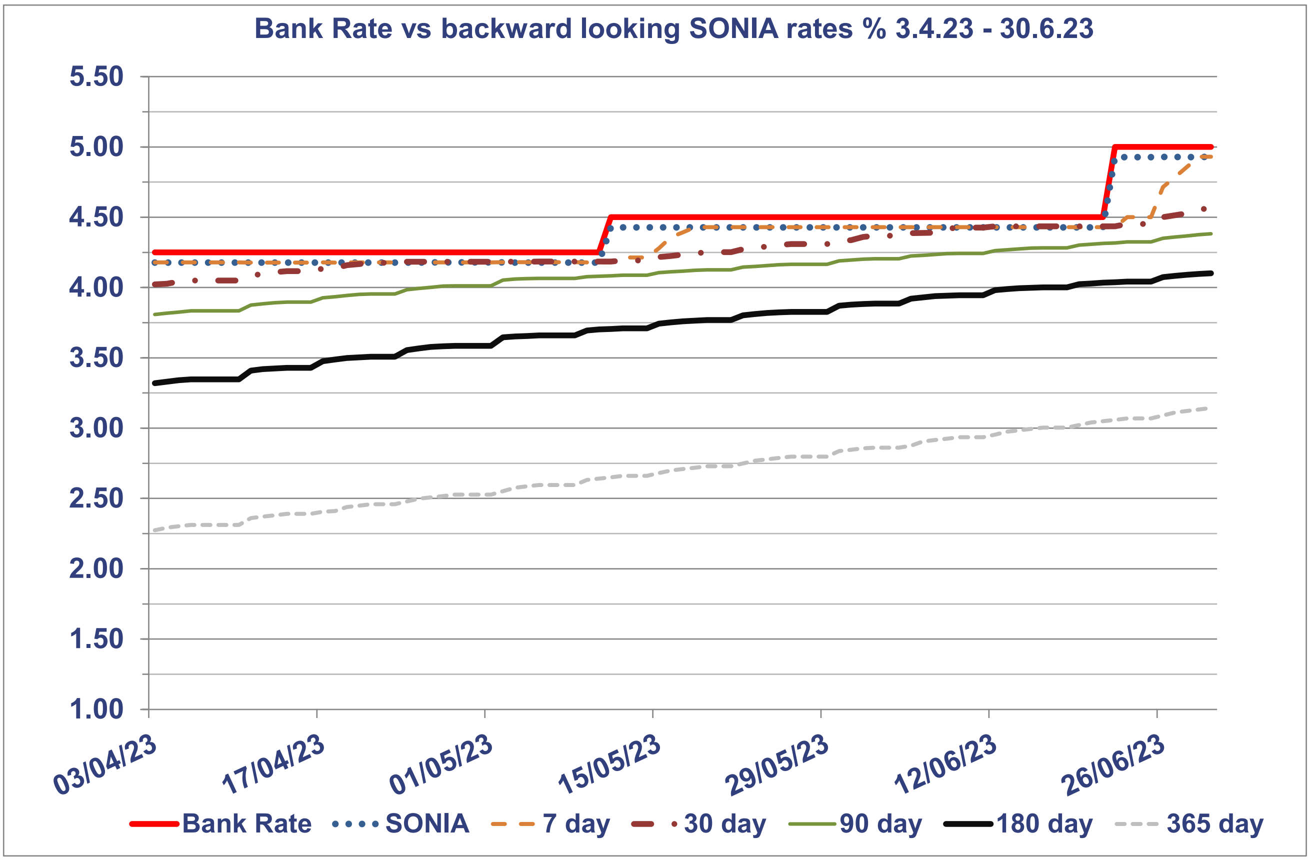


FINANCIAL YEAR TO QUARTER ENDED 30/6/2023						
	Bank Rate	**SONIA**	**1 mth**	**3 mth**	**6 mth**	**12 mth**
High	5.00	4.93	4.94	5.27	5.67	6.06
High Date	22/06/2023	30/06/2023	29/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	4.44	4.37	4.46	4.66	4.90	5.08
Spread	0.75	0.75	0.77	0.96	1.21	1.59



FINANCIAL YEAR TO QUARTER ENDED 30/06/2023

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.00	4.93	4.93	4.57	4.38	4.10	3.14
High Date	22/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023	30/06/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.44	4.37	4.34	4.27	4.11	3.74	2.70
Spread	0.75	0.75	0.75	0.55	0.57	0.78	0.87

44. The Council has outperformed the benchmark backward looking SONIA rate of 4.37% by 6 bps. The Council's budgeted investment return for 2023/24 is £899,000, and performance for the year to date is in line with the budget.

45. The 2023/24 budget for interest receivable is £899,000 and at 30th June we were on target for achieving £900,000. The interest receivable budget for 2022/23 was £503,000 actual interest received was £1,141,000. We are unlikely to achieve this level of income this year as cash available for investing decreases as work on the capital programme progresses.

CCLA Investments: Property Fund & Diversified Income Fund (DIF)

46. The Council also had longer term investments with CCLA in a Property Fund and Diversified Income Fund.

47. The value of the Property Fund as 30 June 2023 was £1,845,178. This is £154,822 (7.7%) below the initial investment amount of £2,000,000. The dividend yield on the net asset value is 4.45%.

48. The value of the Diversified Income Fund as 30 June 2023 was £2,694,154. This is £305,846 (10.2%) below the initial investment amount of £3,000,000. The dividend yield is 3.17%.

Loans to Other Organisations

49. As at 30 June 2023 the following longer term loans made to other organisations were outstanding:

3rd Party Organisations	Rate/ Return (%)	Start Date	End Date	Principal Outstanding as at 30/06/2023 £	Type
Amicus /Optivo	3.78%	04/09/2014	02/09/2044	£1,788,235	Maturity
The Foreshore Trust	1.66%	21/03/2016	20/03/2026	£95,262	Annuity
The Source	2.43%	17/12/2015	17/12/2025	£8,144	Annuity
			Sub-Total	**£1,891,641**	
Hastings Housing Company					
Hastings Housing Company - Loan 1	4.48%	28/02/2018	28/02/2058	£784,676	Maturity
Hastings Housing Company - Loan 2	4.84%	12/02/2019	12/02/2059	£344,810	Maturity
Hastings Housing Company - Loan 3	4.84%	13/06/2019	13/06/2059	£4,359,912	Maturity
			Sub-Total	**£5,489,398**	
			Total	**£7,381,039**	

Approved limits

50. Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023.

Borrowing

51. No borrowing was undertaken during the quarter ended 30th June 2023.

52. The Council has outstanding external debt of £65.4m comprising of 22 individual loans from the PWLB with an average rate of interest of 2.81%.

53. It is anticipated that borrowing of £24.8m will be required this financial year to fund expenditure on the capital programme. This figure is however dependant on progress made on the capital programme, any capital receipts received within the year from asset sales and the availability of cashflows and reserve balances to facilitate internal borrowing.

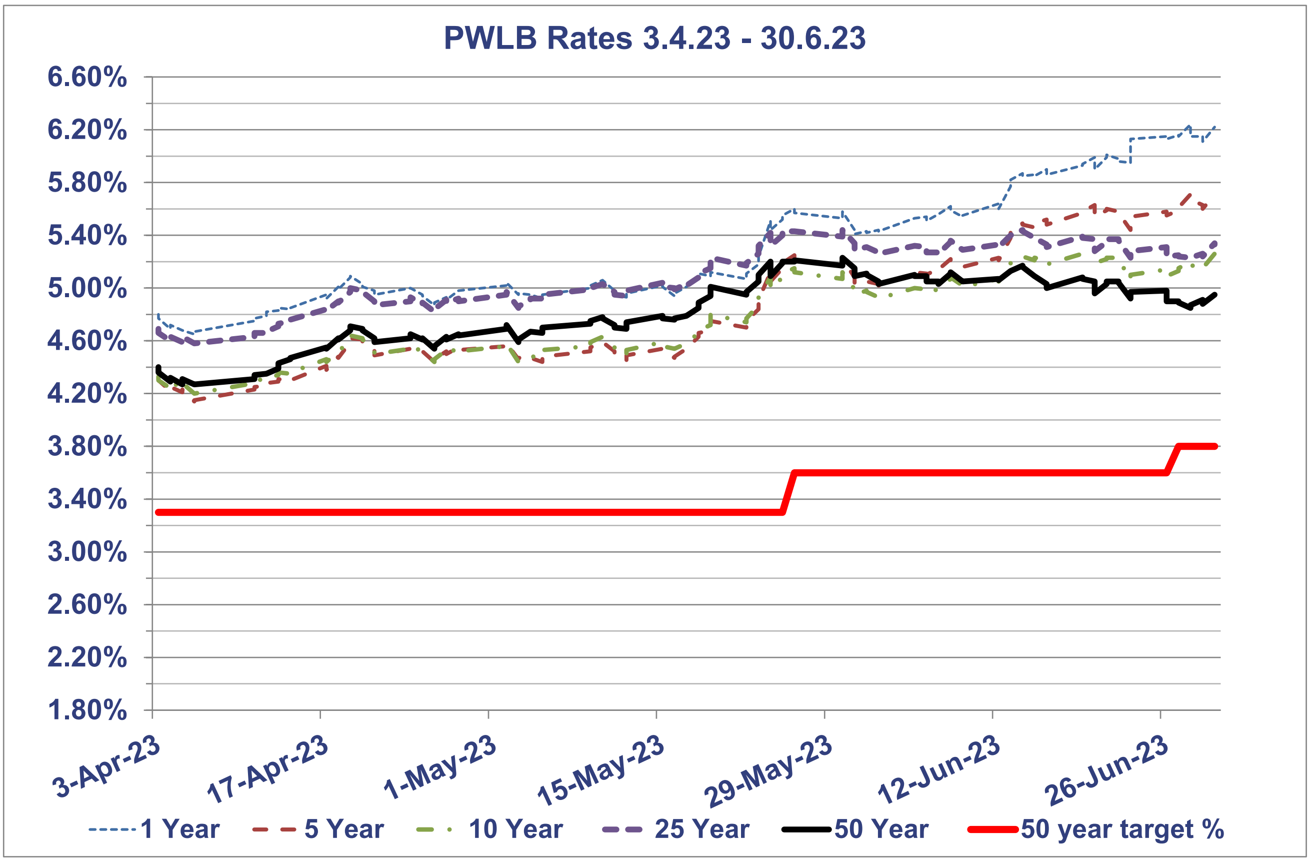
PWLB maturity Certainty Rates 1st April to 30th June 2023

54. Gilt yields and PWLB rates were on a rising trend between 1st April and 30th June.

55. The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised to not borrow long-

term unless the Council wants certainty of rate and judges the cost to be affordable.

PWLB RATES 03.04.23 - 30.06.23 (note: the 1st/2nd April was a weekend)



HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 30.06.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.14%	4.20%	4.58%	4.27%
Date	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
High	6.24%	5.71%	5.28%	5.44%	5.23%
Date	28/06/2023	28/06/2023	20/06/2023	30/05/2023	30/05/2023
Average	5.32%	4.87%	4.78%	5.09%	4.82%
Spread	1.59%	1.57%	1.08%	0.86%	0.96%

Debt rescheduling

56. Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio however given the need to borrow to fund the capital programme this is unlikely without receiving significant capital receipts.

Compliance with Treasury and Prudential Limits

57. The prudential and treasury Indicators are shown in Appendix 1.

58. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 30th June 2023, the Council has operated within the treasury and prudential indicators set out in the Council's

Treasury Management Strategy Statement for 2023/24. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

59. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Treasury Management Mid-Year Report	Report	November 2023	Chief Finance Officer
Treasury Management Update Q3	Report	February 2023	Chief Finance Officer
Treasury Management Outturn Report	Report	June 2023	Chief Finance Officer

Wards Affected

None.

Implications

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

Equalities and Community Cohesiveness	No
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	No
Climate Change	No

Additional Information

Treasury Management and Annual Investment Strategy 2023/24
CIPFA - Treasury Management Code of Practice
CIPFA - The Prudential Code

Appendix 1 – Prudential Indicators
Appendix 2 – Approved countries for investments as of 30th June 2023

Appendix 3 – Abbreviations used in this report

Officer to Contact

Officer Name: Simon Jones, Deputy Chief Finance Officer
Officer Email Address; simon.jones@hastings.gov.uk

Appendix 1 - Prudential Indicators

The Council's Capital expenditure plans are the key driver of treasury management activity. The output of the Capital expenditure plans (detailed in the budget but updated with the latest forecasts) is reflected in the prudential indicators below.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for external debt					
borrowing	110,000	110,000	135,000	135,000	135,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	115,000	115,000	140,000	140,000	140,000
Operational Boundary for external debt					
borrowing	105,000	105,000	130,000	130,000	130,000
other long term liabilities	5,000	5,000	5,000	5,000	5,000
TOTAL	110,000	110,000	135,000	135,000	135,000

The Council's external borrowing at 30 June 2023 amounted to £65,421,204 which is well within approved borrowing limits.

It is however worth noting that although the Council has the ability to borrow up to £135m it is very important to consider affordability. Borrowing to this level would only be possible if the capital schemes invested in were to generate a sufficient level of income to cover the MRP and interest costs at a level within the Council's risk appetite. To reduce pressure on the revenue budget it would be preferable for the Council to look to fund the capital programme via capital receipts from asset disposals rather than additional borrowing.

Interest Rate Exposures	2022/23 Upper	2023/24 Upper	2024/25 Upper
Limits on fixed interest rates based on **net** debt	100%	100%	100%
Limits on variable interest rates based on **net** debt	100%	100%	100%
Limits on fixed interest rates:			
· Debt only	100%	100%	100%
· Investments only	100%	100%	100%
Limits on variable interest rates			
· Debt only	30%	30%	30%
· Investments only	100%	100%	100%

Maturity Structure of fixed interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years to 20 years	0%	100%
20 years to 30 years	0%	100%
30 years to 40 years	0%	100%
40 years to 50 years	0%	100%

Maturity Structure of variable interest rate borrowing 2023/24	Lower	Upper
Under 12 Months	0%	30%
12 months to 2 years	0%	30%
2 years to 5 years	0%	30%
5 years to 10 years	0%	30%
10 years to 20 years	0%	10%
20 years to 30 years	0%	10%
30 years to 40 years	0%	10%
40 years to 50 years	0%	10%

Based on the current budget position and the forecast outturn there is no need to increase the Authorised Limit or the Operational Boundary at the current time. Likewise there is no need to make any amendments to the Council’s interest rate exposures or debt maturity structures at the current time.

Affordability Prudential Indicator - Ratio of financing costs to net revenue stream

This indicator assesses the affordability of the capital investment plans. It provides an indication of the impact of the capital investment plans on the Council’s overall finances. This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Prudential Indicator: Financing Cost to Net Revenue Stream	2021/22 Actual	2022/23 Actual	2023/24 Budget	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Financing Costs	£'000	£'000	£'000	£'000	£'000	£'000
1. Interest Charged to General Fund	1,825	1,862	2,811	2,435	3,681	3,665
2. Interest Payable under Finance Leases and any other long term liabilities	-	-	-	-	-	-
3. Gains and losses on the repurchase or early settlement of borrowing credited or charged to the amount met from government grants and local taxpayers	-	-	-	-	-	-
4. Interest and Investment Income	(540)	(1,141)	(824)	(900)	(618)	(618)
5. Amounts payable or receivable in respect of financial derivatives	-	-		-	-	-
6. Minimum Revenue Provision (MRP) / Voluntary Revenue Provision (VRP)	1,668	870	1,950	904	939	976
7. Depreciation/Impairment that are charged to the amount to be met from government grants and local taxpayers	-	-		-	-	-
Total	2,953	1,591	3,937	2,439	4,002	4,023
Net Revenue Stream Amount to be met from government grants and local taxpayers	14,253	13,370	14,821	13,637	13,910	14,188
Ratio **Financing Cost to Net Revenue Stream**	**21%**	**12%**	**27%**	**18%**	**29%**	**28%**

Note: Outturn figures for 2021/22 and 2022/23 are unaudited

This prudential indicator shows that the ratio of financing costs to the net revenue stream is increasing over time. This is not unexpected given that the Council has had an income generation strategy that has resulted in increased Capital expenditure over the period 2017/18 to 2021/22 and that the Council agreed a programme for over £54m of Capital expenditure over the period 2020/21 to 2023/24 - thus increasing borrowing costs. The above ratio does not take into account the income is being generated from some of the initiatives and commercial property acquisitions as these are not treated as investment income.

It should be noted that due to lower than budgeted interest and MRP charges and greater than budgeted investment income the ratio of financing costs to the net revenue stream for 2023/24 has reduced from 27% at the time of setting the budget (and included in the Treasury Management strategy) to 18% now.

Other Prudential Indicators

Internal Borrowing and Gearing ratios for the authority are included in the Capital Strategy.

Gearing Calculation	Actual 2020-21 £'000	Actual 2021-22 £'000	Actual 2022-23 £'000	Budget 2023-24 £'000	Estimate 2023-24 £'000	Estimate 2024-25 £'000	Estimate 2025-26 £'000	Operational Boundary £'000
Capital Expenditure			9,661	29,322	29,322	15,324	2,591	
New Borrowing			-	24,837	24,837	11,471	485	
Net Assets	88,861	108,409	118,070	156,610	147,392	162,715	165,306	211,291
Long Term Assets	182,088	185,420	195,081	233,621	224,403	239,726	242,317	288,302
Capital Financing Requirement	72,683	71,970	71,100	97,524	95,033	105,337	104,535	135,000
RATIOS:								
Debt: Net Assets	**82%**	**66%**	**60%**	**62%**	**64%**	**65%**	**63%**	**64%**
Debt: Long Term Assets	**40%**	**39%**	**36%**	**42%**	**42%**	**44%**	**43%**	**47%**

The forecast ratio of debt to net assets for 2023/24 has increased from 62% at the time of setting the budget to a forecast of 64% now. This is due to a lower level of assets being used in the calculation as not all the capital expenditure plans of the 2022/23 budget were achieved in the year.

Appendix 2 - Approved countries for investments as of 30th June 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France (downgraded by Fitch on 9th May 2023)
- Qatar
- **U.K.**

Appendix 3 – COMMON ABBREVIATIONS USED FINANCE REPORTS

CE: Capital Economics - is the economics consultancy that provides Link Group, Treasury solutions, with independent economic forecasts, briefings and research.

CFR: Capital Financing Requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the

United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE/QT: quantitative easing – is an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. This is called quantitative tightening. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).

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Hastings Borough Council

Report To: Cabinet

Date of Meeting: 7th August 2023

Report Title: Land and Property Disposal Programme

Report By: Jane Hartnell, Chief Executive

Key Decision: Y

Classification: Open

Purpose of Report

To seek approval to the sale of four Council owned sites to generate capital receipts estimated at more than £3m which would help to reduce our over capital borrowing requirements and reduce potential interest costs.

Recommendation(s)

1. **Add Land at rear of 419 to 447 Bexhill Road, Mayfield E, 12/13 York Buildings and land at Upper Wilting Farm, to the Council's Land and Property Disposal Programme.**
2. **Approve the disposal of the sites in accordance with section 123 of the Local Government Act 1972 [Local Government Act 1972 (legislation.gov.uk).](#)**
3. **Delegate authority to the Property & Commercial Assets Manager in consultation with the Leader of the Council and Finance Portfolio Holder to take all actions to dispose of the sites and agree the terms of the sales.**

Reasons for Recommendations

1. Ahead of the wider Council strategic asset review we have conducted an initial review of the Council's assets and identified these sites can be brought forward for immediate sale for the reasons outlined in the report.
2. The sales will generate capital receipts currently estimated to be worth in the region of £3m. These capital receipts would then be reinvested into funding the capital programme and reduce external borrowing. This would therefore reduce our borrowing costs such as MRP (Minimum revenue Provision) as well as costly interest charges which are continuing to rise with interest rates.
3. This would have a beneficial impact on our revenue position and take some of the pressure off the Council services and general reserve balance which is continuing to be used to fund the revenue budgets for areas such as Homelessness.

INVESTOR IN PEOPLE

disability confident EMPLOYER

Introduction

1. The Council's Land and Property Disposal Programme (the Programme) was adopted at Budget Council on 15 February 2023. The report recognised that the identification and sale of surplus or underperforming assets remains crucial to funding the Capital programme and minimising revenue costs.

2. One of the recommendations of the Local Government Association Finance Peer report was that we make changes to enable asset disposals to happen as urgently as possible. This should include having clear accountability and decision making on disposals.

3. The Council has commissioned the Chartered Institute of Public Finance and Accountancy (CIPFA) to carry out a full strategic asset review to be completed by December 2023 with recommendations to follow. In the interim, in response to the urgency highlighted in the LGA report, officers have carried out an initial review and identified four sites to be disposed of as shown on the attached plans and described below.

Land at rear of 419 to 447 Bexhill Road (Bexhill Road south) and Mayfield E

4. These two sites were declared surplus to requirements some time ago and included in the Programme. Outline planning consents for residential development (Bexhill Road south for sixteen units and Mayfield E up to 38 units) were obtained to support their disposal but the sites were subsequently removed from the Programme so the option of the Council developing them directly could be explored.

5. A planning application for approval of reserved matters on Bexhill Road south was submitted in November 2022. This will be pursued and is expected to be decided sometime this year.

6. The current economic climate, the Council's financial position, the housing crisis and lack of capacity have caused us to reconsider our approach to delivering social housing on sites we have identified in our ownership that could be developed. The priority is to bring forward new housing units as soon as possible so our new approach, at least until we have additional officer capacity, will be to seek social housing partners to acquire and deliver on these sites. This should enable the sites to be developed at a quicker pace and generate capital receipts.

7. The Council's aspiration is to achieve 100% affordable housing on both sites.

12/13 York Buildings

8. This is a grade II listed building with a retail area on the ground floor plus associated basement storage and three upper floors converted to 6 x 1-bedroom flats. The Council has been considering options to bring the flats into use for social housing.

9. After much consideration it has now been concluded that due to the unique nature of the property it is unsuitable for social housing delivery. Therefore, the best option is to progress the freehold sale of the whole building including the retail element. As well as producing a capital receipt it will also relieve the Council of responsibility for the costs and management of maintaining the building which are significantly more expensive, and complex compared to traditional social housing.

10. The Council has started a conversation with Homes England about the grant funding which has been provided for the property.

Upper Wilting Farm

11. This lies outside the Hastings Borough boundary in Rother and various parcels, including the farm buildings, have previously been sold.

12. The remaining site is farmland extending in total to approximately 188 acres (76 hectares) and comprises a main block with two smaller parcels of grassland/woodland. Much of the southern areas of the main block is SSSI (site of special scientific interest). The land is let on a Farm Business Tenancy which ends on 24 March 2024.

13. The land has no immediate potential for redevelopment purposes (including housing/affordable housing) as it falls within the Strategic Gap designation of the Rother Local Plan which is designed to restrict/resist built development of all but very minor proposals only allowing development which is in keeping with the designation and part of the site is within Combe Valley Countryside Park.

14. The land currently produces a small amount of revenue giving a modest return and with the ending of the Tenancy this gives an opportunity to capitalise on the value by the sale of the freehold.

Risk Management

15. There are risks associated with disposing of land/property, but it is considered that the market conditions are currently suited to bringing forward the identified sites.

Conclusion

16. For the reasons outlined above it is recommended that the four sites are brought forward for disposal as soon as possible.

17. In the context of the ongoing review of the Capital Programme and assets held by the Council, it is imperative that all options are considered to help reduce the ongoing budget deficit. These additional Capital Receipts would have a significant positive impact on the Council's ability to fund its ongoing Capital programme whilst reducing its revenue burden.

18. As part of the Council's commitment to avoiding the issue of a Section 114 notice by the Section 151 officer it is recommended that these assets are therefore sold.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Agent/s appointed to market	Marketing proposals sought from agents	As soon as possible post Cabinet	Property and Commercial Assets Manager
Marketing begins	Timetable of marketing to be agreed with the appointed agent/s	To be agreed	Property and Commercial Assets Manager & appointed agent/s

Offer/s accepted & legal instructed to progress disposal	Detailed heads of terms agreed for sale	To be agreed	Property and Commercial Assets Manager & appointed agent/s
Sale/s complete & capital receipt/s received	Legal documentation drafted and agreed then transfers completed	To be agreed (but likely to be 24/25)	Legal Services

Wards Affected

Castle; Hollington; West St Leonards;

Policy Implications

Reading Ease Score: 83%

Have you used relevant project tools? Y/~~N~~

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

Equalities and Community Cohesiveness ~~Y~~/N
Crime and Fear of Crime (Section 17) ~~Y~~/N
Risk Management Y/~~N~~ See report.
Environmental Issues & Climate Change ~~Y~~/N
Economic/Financial Implications Y/~~N~~ See report.
Human Rights Act ~~Y~~/N
Organisational Consequences Y/~~N~~ This will require officer capacity but will also reduce deficit.
Local People's Views ~~Y~~/N
Anti-Poverty ~~Y~~/N
Legal Y/~~N~~ Advice has been sought from legal services regarding the potential freehold disposals and any title considerations.

Additional Information

Budget Council Report 15 February 2023 - Revenue Budget 2023/24, and Capital Programme 2023/24 to 2025/26
Cabinet report 1 August 2022 – York Buildings
Cabinet report 7 March 2022 – Affordable Housing Development

Officer to Contact

Officer Amy Terry
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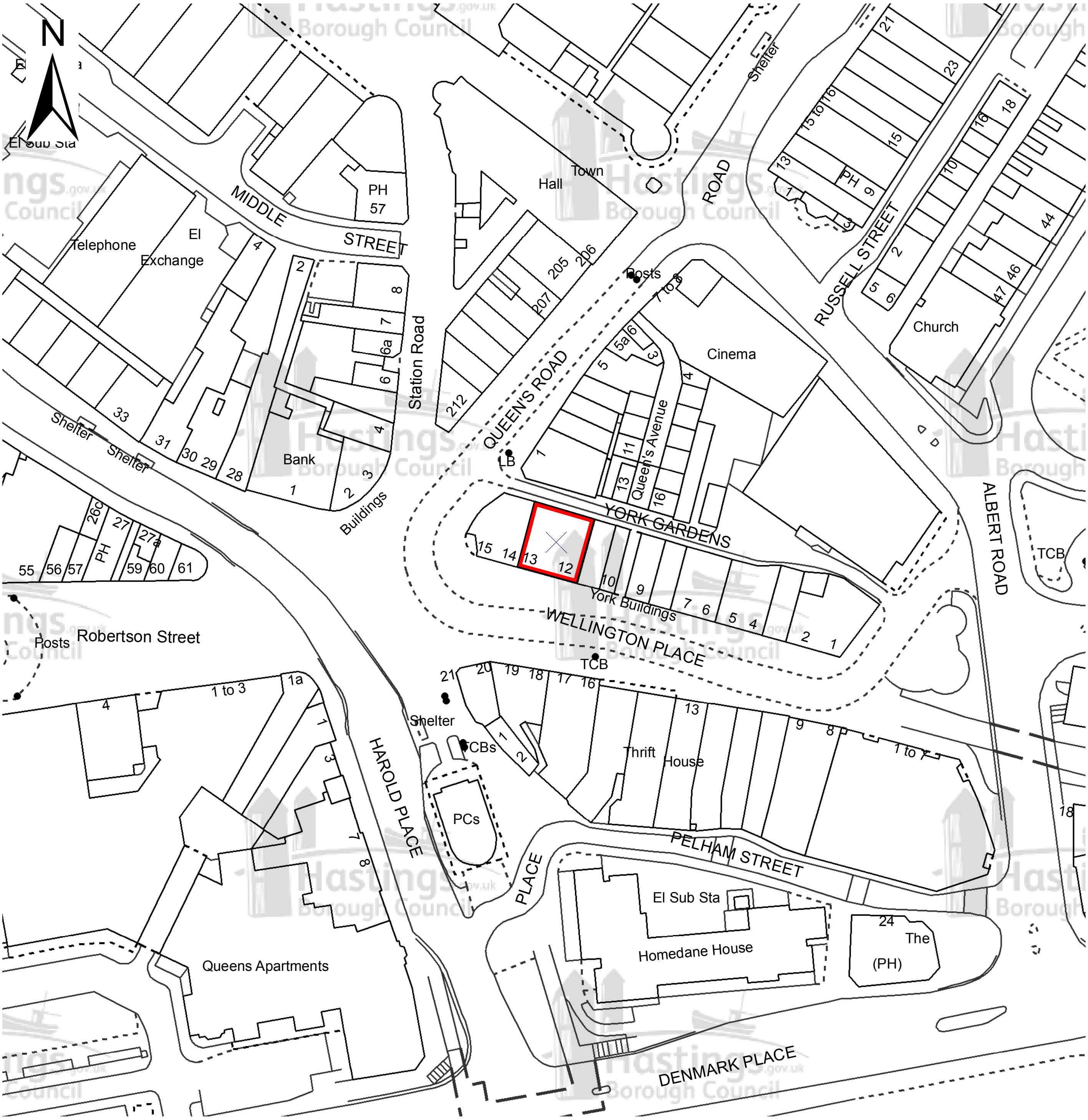

12-13 York Buildings
Wellington Place
Hastings

Hastings.gov.uk
Borough Council

Estates Manager:
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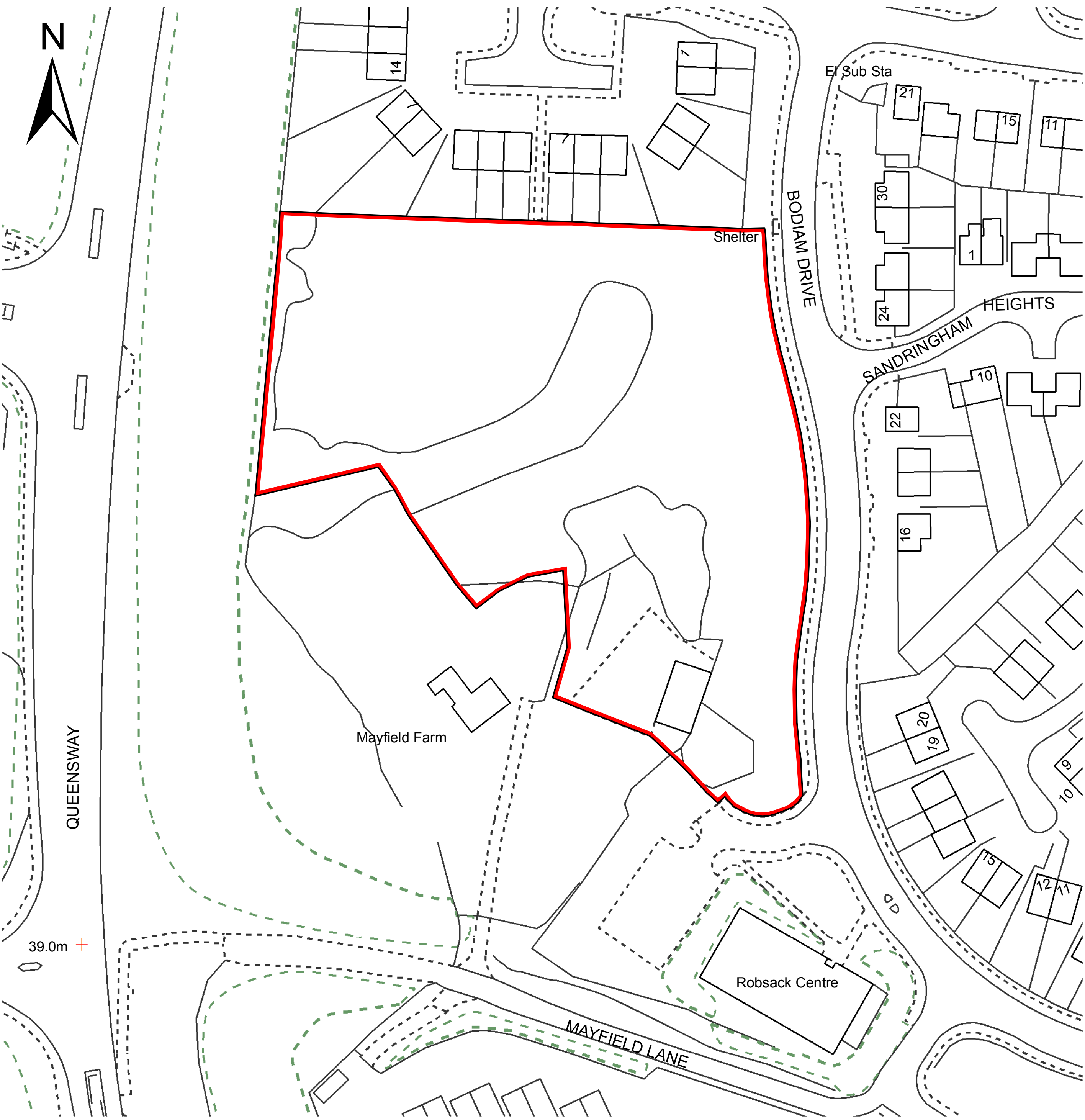

Mayfield E
Bodiam Drive
St Leonards-on-sea

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Borough Council

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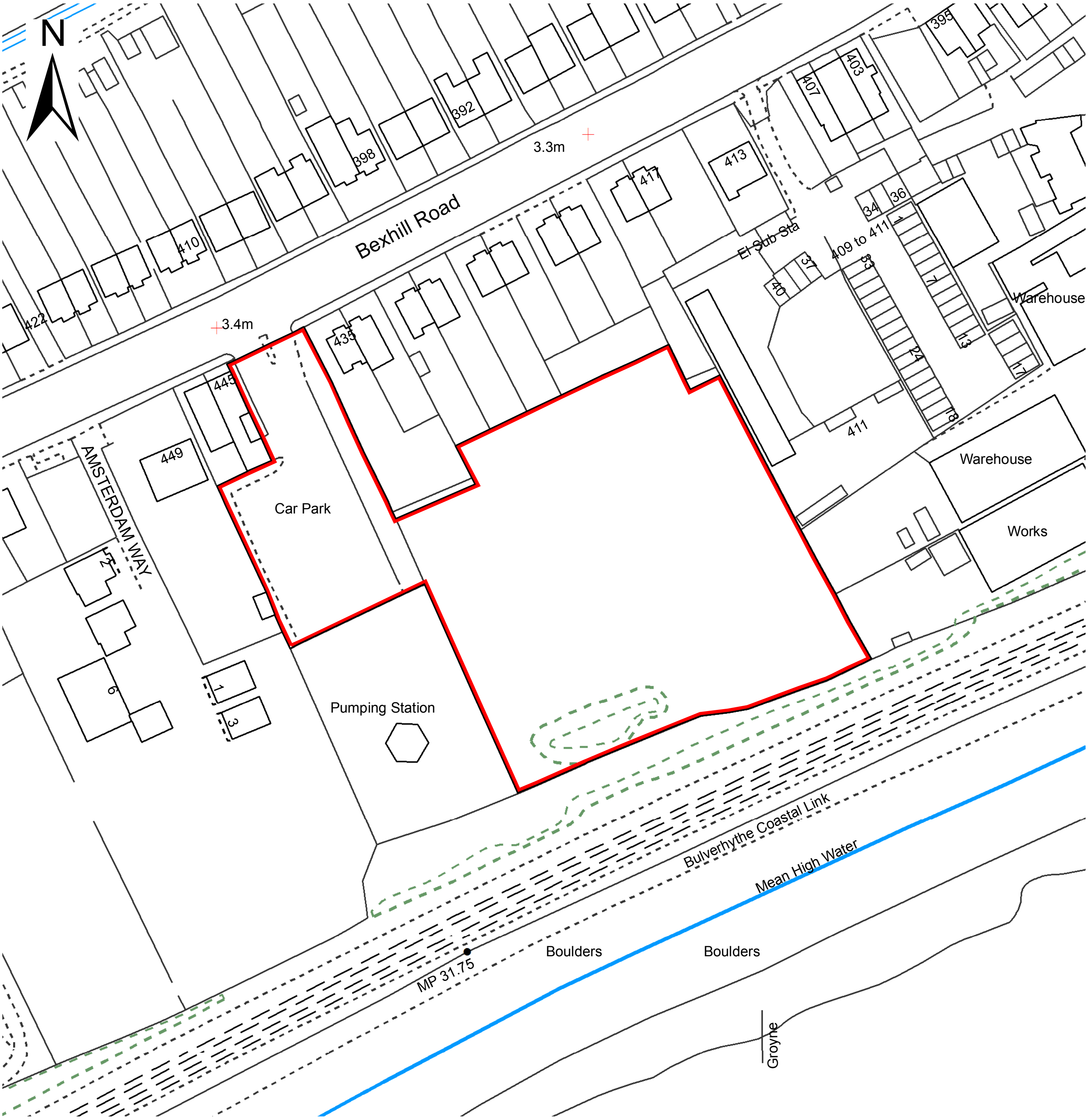

Car Park and Land at Bexhill Road
St Leonards-on-sea

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Date: April 2015	Scale: 1:1,250	Drawn: ST	Drawing No: ESAD 1676

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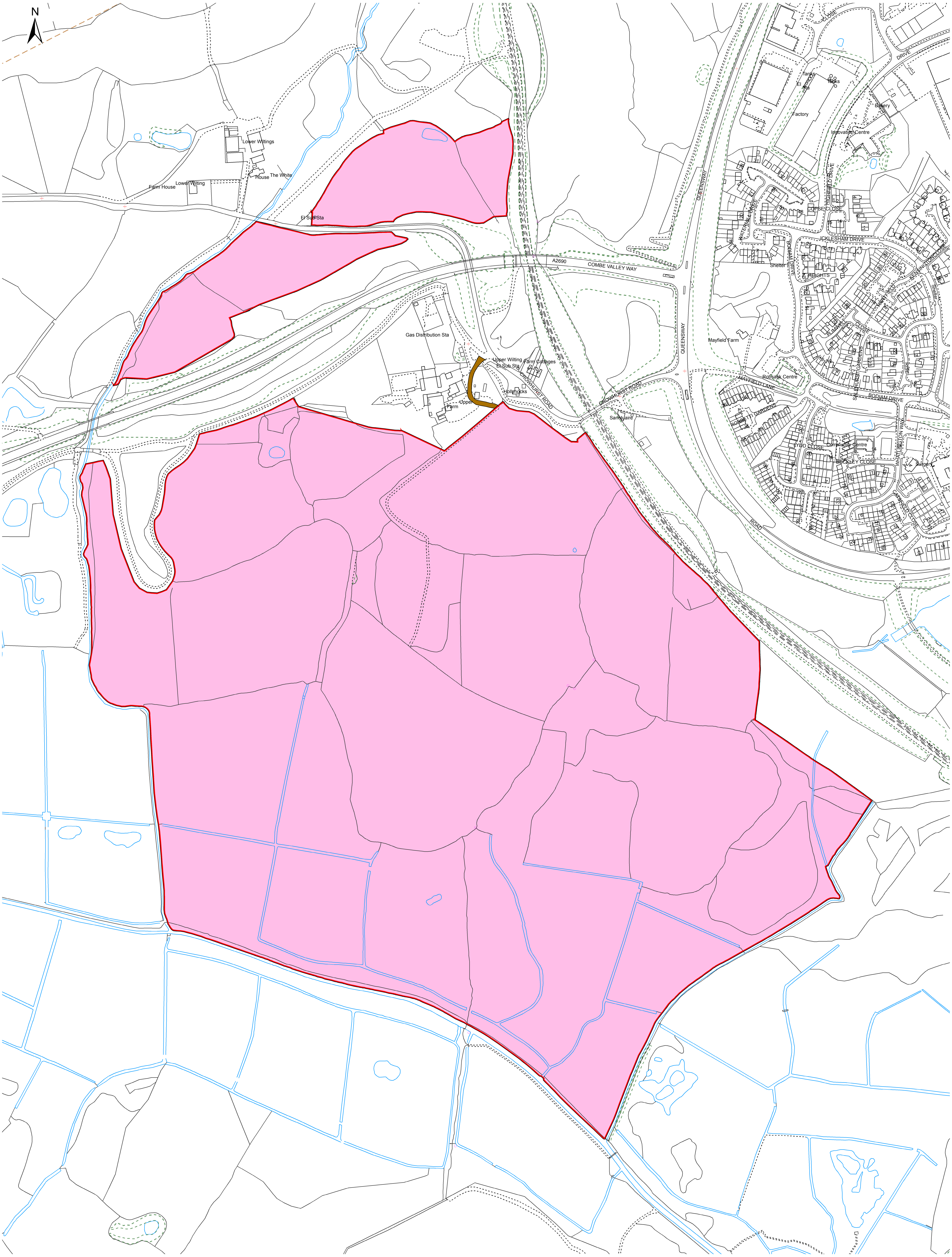

Upper Wilting Farm

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Date: May 2019	Scale: 1:2,500	Drawn: ST	Drawing No: ESAD 1790

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