DRAFT **APPENDIX A**

Medium Term Financial Strategy 2015/16 to 2017/18

Purpose of the Strategy

1. The council manages its finances by matching council priorities to funding across the medium term; this strategy report identifies the risks that the council faces in doing so. The annual budget cycle refines the process for the immediate year ahead and determines the most appropriate use of available resources as well as setting the Council Tax for the borough.

2. The deficit reduction programme that the coalition government embarked upon continues to result in significant and ongoing reductions in funding. The period over which these reductions will last, has far reaching effects for the levels of service that the council can continue to provide. The council finds itself in a very challenging financial period.

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

Background

4. Councils are expected to plan their finances over more than a one year period. The longer term planning of finance supports the achievement of priorities in the Corporate Plan and allows more effective planning of services. It encourages councils to predict events in the future and develop strategies to deal with them.

5. The Financial Strategy is the first stage in the annual business planning process. A later stage, the budget process, will examine the financial implications of any revisions to corporate plan objectives and match these to available resources to define a council-wide budget requirement in early 2015.The corporate planning process ensures there is full integration of all key strategies and the policies of the council.

6. The results of the Comprehensive Spending Review (CSR) in October 2010 covered a 4 year period (2011/12 to 2014/15). Overall, the local government 'Departmental Expenditure Limit' (DEL) would reduce by 28% over the CSR period - going from £28.5bn in 2010/11 to £22.9bn in 2014/15.

7. The chancellor's budget on 20 March 2013 announced further reductions in Department Expenditure Limits (DEL) of 1% in 2013/14 and 1% in 2014/15. As the local government settlement had been agreed, local authorities were protected from the cut in 2013/14 but were subject to the further reduction in 2014/15. He also confirmed that the government would outline a one-year spending review for 2015/16 on 26 June 2013. He reiterated that public spending control is central to the government's

commitment to reduce the deficit.

8. The review on the 26 June 2013 (termed Spending Round) identified that the overall cut for local government for 2015/16 was set at 10%. Projections were not announced for years beyond 2015/16 but given the scale of the national deficit further significant cuts need to be anticipated.

9. In the March 2013 budget the chancellor also announced that health, schools and development assistance will be protected which means that cuts in DEL will fall disproportionately on the remaining public services including local authorities.

10. This report updates the MTFS taking into consideration the indicative funding for 2015/16 and 2016/17 and assumptions on funding for 2017/18 as well as making assumptions around service and corporate pressures.

Local Government Spending Control Totals

11. The overall reduction in Settlement Funding Assessment (Business Rates, Revenue Support Grant and other rolled in grants) for 2015/16, will be some 13%. However the impact is not uniform between upper and lower tier authorities and shire districts/ boroughs such as Hastings can expect a reduction of 15.3% in 2015/16.

Settlement Funding Assessment	2014-15 (£ million)	2015-16 (£ million)	Reduction
England	23,614	20,693	-13.0%
Shire Districts/Boroughs	1,082	923	-15.3%

12. The government announced in the autumn 2013 statement a safety net mechanism for authorities whose Revenue Spending Power (Business rates and grant income combined with new homes bonus and Council Tax monies) reduced by more than 6.9%. Such authorities being eligible to apply for assistance by means of the Efficiency Support Grant regime.

13. The government have stated that reductions in funding for 2015/16 and 2016/17will be in line with the reductions of the first two years of the Comprehensive Spending Review - a 26% reduction could therefore be anticipated.

14. For the purposes of financial planning, whilst the local government sector as a whole is anticipating cuts of some 8% p.a. this will not fall equally between the tiers of local government and a further 10% cash reduction in funding has therefore been assumed for Hastings in 2017/18.

Strategic Priorities

15. The council’s strategic priorities were reviewed for 2014/15, and whilst remaining valid may be amended for 2015-16 as part of the corporate planning process. These are:-

    Fairness and Equality

    To provide high quality services that meet the needs and improve the quality of life of all our citizens, promoting equality of opportunity through a culture of openness, fairness and transparency, enabling local people to hold us to account.

    Economic & Physical Regeneration

    To secure economic & physical regeneration that produces high quality new developments while preserving the best of our heritage, promoting infrastructure improvements, economic growth and employment, particularly in tourism, creative industries, and high-tech manufacturing & research.

    Narrowing the Gap

    To ‘narrow the gap’ between the opportunities of our most deprived communities and those of the rest of the town, as well as between Hastings and the rest of the south east.

    Facing Financial Challenges

    To meet the current financial challenges by maximising the resources available to us though efficiency improvements, income generation and attracting external funding, maintaining an organisation that values its staff and is good to work for.

    Interventionist services

    To keep the town clean, safe and attractive, using direct interventionist actions to tackle enviro-crime, poor housing, eyesore properties, derelict land and improvements to the public realm.

    Environmental Sustainability

    To tackle climate change and improve the borough’s environment by reducing our own carbon footprint, maintaining high-quality green spaces, promoting sustainable transport, and encouraging ‘green’ industries.

16. The council’s corporate plan continues to remain ambitious when set against the background of reductions in annual grant settlements. The council has a very good track record of achieving its objectives and improving performance, and continues to be well placed to deliver the programme in 2015/16. Significantly reduced resources will inevitably impact on service delivery in the years ahead.

Key Principles of the Medium Term Financial Strategy (MTFS)

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

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

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

(ii) Maintain a sustainable revenue budget

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

Whilst the principle remains sound the council has consciously been strengthening its reserves in the last few years, knowing that these will be required to ease the transition to a lower spending council and to meet key corporate priorities. The council now requires the use of these reserves to achieve balanced budgets over the next few years.

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

(iv) Continue to identify and make efficiency savings

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

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

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

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

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

(vii) Ensure sufficient reserves are maintained.

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

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

It should be noted that the annual governance report produced by the council's external auditors in September 2014 gives a very positive opinion on the council's provision of value for money services.

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

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

FINANCIAL CONTEXT - The National Economic Climate

18. During 2014/15 economic indicators continue to suggest that the UK economy is recovering, but that many of the UK's key trading partners within Europe are not.

19. After strong UK GDP quarterly growth 0.7% in Q1 and 0.9% in Q2 2014 (annual rate 3.2% in Q2), it appears very likely that growth will continue through 2014 and into 2015 as forward surveys for the services and construction sectors, are positive and business investment is also recovering. This growth has resulted in unemployment falling much faster through the initial threshold of 7%, set by the Monetary Policy Committee (MPC) last August, before it said it would consider any increases in the bank base rate. The MPC has, therefore, subsequently broadened its forward guidance by adopting five qualitative principles and looking at a much wider range of about eighteen indicators in order to form a view on how much slack there is in the economy and how quickly slack is being used up. Most economic forecasters are expecting growth to peak in 2014 and then to ease off a little, though still remaining strong, in 2015 and 2016. Unemployment is therefore expected to keep on its downward trend and this is likely to eventually feed through into a return to increases in pay rates at some point during the next three years.

20. Also encouraging has been the sharp fall in inflation (CPI), reaching 1.2% in September 2014, the lowest rate since 2009. Forward indications are that inflation is likely to fall further in 2014 to possibly near to 1%. Overall, markets are expecting that the MPC will be cautious in raising Bank Rate as it will want to protect heavily indebted consumers from too early an increase in Bank Rate at a time when inflationary pressures are also weak. A first increase in Bank Rate is therefore expected in the first or second quarters of 2015 and they expect increases after that to be at a slow pace to lower levels than prevailed before 2008 as increases in Bank Rate will have a much bigger effect on heavily indebted consumers than they did before 2008. The Bank of England expects inflation to be on target (2.0%) in 2016.

21. The return to strong growth has also helped to lower forecasts for Government debt by £73bn over the next five years, as announced in the 2013 Autumn Statement, and by an additional £24bn, as announced in the March 2014 Budget - which also forecast a

return to a budget surplus of £5bn, in 2018-19.

22. Economic forecasting remains difficult with so many external influences weighing on the UK. Whilst the economy has been showing good signs of recovery it remains exposed to vulnerabilities in a number of key areas – particularly europe.

23. In determining the Medium Term Financial Strategy the impact of the economic climate on the council has to be considered. As a result it is considered that no general allowance can be made for any uplift in the council's income streams other than for inflation, although individual income streams will be reviewed.

Risks and Opportunities

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

- External funding in terms of the annual grant settlement for 2015/16 and beyond
- Business Rates Retention Scheme – a new funding regime was introduced on 1 April 2013 whereby councils retain an element of business rates and any growth (or reduction) – this has increased volatility and risks for council funding. The local retention of business rates presents real risks to the authority should rate income decrease, but likewise provides the council with an incentive to increase the business rate base and the level of business rates being collected.
- Business Rate Appeals – This is one risk that has materialised and one that is proving particularly costly at present. The council is picking up the cost of revised rating determinations that stretch back as far as 2005. The government have stated that they are looking to conclude the majority of these appeals by July 2015.
- Localisation of Council Tax – funding for Council Tax Support having been reduced by 10% and councils are now maintaining their own schemes
- Security of income streams
- Increased demand for public services
- Delays in achieving capital receipts
- Delivery of the identified PIER savings.
- Pension Fund Performance and changes to the national scheme – including National Insurance implications.
- Housing Benefits – Universal Credit and the impact on Housing Benefit Administration grant

- There are opportunities for joint working, shared services and joint procurement that have proven to be successful e.g. Waste and Street Cleansing contract, Grounds Maintenance contract, Fraud and the Building Control service.

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

External Funding

25. The Settlement Funding Assessment (SFA) consists of two main elements,

(i)Revenue Support Grant (RSG)
(ii)Retained Business Rates

26. Retained business rates are based on the baseline outlined in the 2013/14 local government settlement. The council has experienced, and continues to experience high levels of rating appeals many of which have gone back to 2005 and have thus resulted in large payments to businesses. At this stage in the financial planning process no growth in retained business rates is included for 2015/16.

Council Tax and Business Rates

27. The current funding gap in the MTFS assumes an increase in Council Tax of 1.9% in 2015/16. In determining the actual the actual level of Council Tax for 2015/16 the council will need to take into consideration the government's referendum principles which for 2014/15 were based on the requirement to hold a referendum for increases above 2%. Each 1% increase now yields approximately £55,000.

28. The Council Tax Freeze Grant allocated for 2014/15 will be received for two years. It is anticipated that the government will make a similar offer of an equivalent 1% for 2015/16. The freezing of Council Tax has had, and continues to have, a significant and cumulative impact on the council's budget and is simply not sustainable for the council in the long term.

29. The 2014/15 base budget includes a contribution from the Collection Fund of £37,000. The 2015/16 projection assumes a further contribution of £212,000 from Council Tax due to a good collection record. However this is more than offset by a deficit in business rates income caused by the high level of successful rating appeals. An estimated deficit of £487,000 has been included in the strategy but this figure could increase before the year end.

30. The council retains an element of the business rates and also receives Revenue Support Grant, which now has Council Tax Freeze grant, Homelessness and Council Tax Reduction Support monies rolled into it. The government will control the total monies available to local government by controlling the level of Revenue Support Grant provided each year.

31. The cash decreases in the Settlement Funding Assessment make very stark reading and are shown below. The actual figures for 2015/16 and indicative figures for 2016/17 will be released in the local government settlement in December.

Year	Settlement Funding Assessment (£ 000's)	Cash Decrease (Cumulative) (£ 000's)	Percentage Change
2013/14	£8,352		
2014/15	£7,287	-£1,065	-12.8%
2015/16 (Est)	£6,159	-£2,193	-26.3%
2016/17 (Est)	£5,550	-£2,802	-33.5%

32. The table below summarises the grant funding position since 2010/11 and for the next three years. For comparative purposes the figures exclude specific grants such as Benefit Administration grant, Homelessness grant, and Council Tax Freeze grant.

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 (Est) £m	2016/17 (Est) £m	2017/18 (Est) £m
Area Based Grant	3.6							
Formula Grant	9.1	7.8	6.8					
NDR/ Revenue Support Grant (excluding estimate of rolled in grants)				6.4	5.0	5.2	4.7	4.2
New Homes Bonus		0.2	0.4	0.5	0.9	1.0	1.1	1.1
Transition Funding	0	2.8	2.2	0	0	0	0	0
Efficiency Support Grant				1.0	1.0	0	0	0
Total	**12.7**	**10.8**	**9.4**	**8.1**	**6.9**	**6.2**	**5.8**	**5.3**
Cumulative Cash Reduction		-1.9	-3.3	-4.6	-5.8	-6.5	-6.9	-7.4
Cumulative % Reduction		-15.0 %	-26.0%	- 36.2%	-45.7%	-51.2%	-54.3%	-58.2%

33. The above table assumes that £975,000 of Efficiency Support Grant will be built into the base of the 2015/16 settlement; this is however not yet certain.

Revenue Spending Power & Efficiency Support Grant

34. In 2010/11 the government introduced the concept of "Revenue Spending Power" (RSP) which is the sum of:

- Council Tax requirement
- Specific Government Grants e.g. New Homes Bonus
- Settlement Funding Assessment (Business Rates and Revenue Support Grant)

35. In 2013/14 Hastings and six other local authorities were awarded Efficiency Support Grant (£974,000 and a bonus of some 25% i.e. an additional £243,000).

36. Last year's Autumn Statement also identified that for 2014/15 and beyond, any council will be able to apply for Efficiency Support Grant if their RSP falls by more than 6.9%.

37. For 2014/15 funding was partly conditional on performance in year 1. The council has now satisfactorily demonstrated the reduced spending and headcount across the council and qualified for a further sum of £975,000.

38. The government have announced that subject to satisfactory performance in 2014/15, the Efficiency Support Grant will be built into the 2015/16 settlement. The council has submitted a return to the government in this respect.

Business Rate Retention Scheme

39. The new system introduced in 2013/14 means that the council retains a proportion of any additional business rate income (above inflation) collected in the borough. The business rate, itself, is set by the government with regard to the change in the Retail Prices Index. The proportion retained in Hastings is 40% (9% is payable to ESCC, 1% to the Fire and Rescue Authority and 50% to the Government).

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

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

42. The 50% central government share is distributed through the formula grant process – thus enabling the government to control the overall amount received by local authorities. Where there is disproportionate growth this will be used to provide a safety

net for those authorities experiencing little or negative growth and allow the treasury to top slice business rates income. A reset mechanism will be in place with the first reset in 2020 and periods of 10 years between resets thereafter. The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

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

44. Assumptions are made on national, regional and local growth as well as valuation appeals and collection rates. No growth assumptions have been built into this strategy.

45. The government after determining the business rates baseline levels included small business rate relief within its own budget proposals for 2013/14. This effectively reduced councils' income as did the 18 month relief being granted on new business premise completions (after 1 October 2013). The government is reimbursing authorities for this lost income which amounts to some £480,000 p.a. for Hastings.

46. The level of instability and risk within the business rates area requires careful assessment when determining the overall level of council reserves. This will be undertaken as part of the annual budget and closedown processes.

Income and additional costs

47. The council has limited reserves and remains reliant upon income streams and investment returns to balance the budget. As disposable income levels decline (given inflation) and welfare changes and low wage settlements continue there are continuing implications for a number of the council's income streams in the medium term. Rental streams from shops are under considerable pressure e.g. Priory Meadow and reduced rental income can be anticipated for some years ahead.

48. Development Control income increased in 2013/14 but is currently lower than this time last year.

49. Given that income streams remain at risk, fees and charges have been kept under careful review and are considered annually against the background of council priorities, local economy and people's ability to pay. In general the policy has been to increase by inflation.

Investment and Borrowing

50. The low levels of interest received on balances looks set to continue for at least the next 6 months. Base rates are not expected to increase in 2014 from their current level of 0.5%. Whilst there have been suggestions of an increase in the spring of 2015 this looks increasingly uncertain with the middle to latter end of 2015 looking more likely. Assumptions, given the restricted counterparties list and short investment periods, are for investment returns of around 0.7% in 2014/15 and 2015/16. The Treasury

Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

51. The council has had additional borrowing requirements in 2014/15 to finance the Coastal Space housing initiative being carried out in partnership with Amicus Horizon. In 2015/16 there may be additional borrowing requirements in respect of new industrial premises and other capital schemes.

Inflation

52. This has been a major issue in the last few years, but has reduced over the last year. Inflation in September 2014 was 2.3% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 1.2%. Comparable rates for September 2013 being 3.2% (RPI) and 2.7% (CPI)

53. The new waste and street cleansing contract is linked to CPI. The council allowed 2.5% for inflation in 2014/15, but only increased budgets where contracts with inflation clauses were present. The same approach is being taken for 2015/16 to 2016/17.

54. Inflation, according to the Bank of England August 2014 inflation report may continue to fall further in 2014/15 before increasing again, but is set to remain at or around the 2% target for 2015/16 and 2016/17. Based upon these projections, general inflation is being estimated at 2% in 2015/16 and beyond for the purposes of this strategy.

Public Sector Pay Settlement

55. A pay offer of 2.2% (plus a lump sum payment for some grades) has been made which if accepted would commence in January 2015 and apply until 31 March 2016 i.e. a two year offer. The figures in the strategy assume this offer is accepted. In addition there are contractual increments (equivalent of around ½%).

56. The salaries budget together with national insurance and pension costs amounts to some £13m – each 1% therefore equating to around £130,000 p.a.(£120,000 p.a. excluding recharges).

57. For the purposes of the strategy 1% increases have been allowed for in 2016/17 and beyond.

Localisation of Council Tax Support & Benefit Administration Grant

58. In 2013/14 the government paid an upfront grant in respect of Council Tax Support, leaving the council to fund any "in year" increase in demand. In 2014/15 the council Tax Support Grant was rolled into the Settlement Funding Assessment. The council has determined that the Council Tax Support Scheme will remain the same for 2015/16.

59. In terms of Universal Credit the programme of transfer was originally expected to commence in October 2013 in respect of new claims with existing claims being completed by 2017/18. The details of the full programme and the levels of work that will remain with the council are still unclear and it had looked more likely that Universal

Credit would not be widely rolled out until after June 2015.

However, a recent announcement by the government indicates that Universal credit will start to be rolled out to all in February 2015.

60. The costs cannot be properly budgeted for as yet –and are thus not included within the strategy. The government have previously stated however that TUPE will not apply and thus the council would be responsible for any redundancy costs – should these arise.

61. The Benefit Administration Grant continues to be reduced on an annual basis. It reduced to £986,292 in 2014/15 (a 28% reduction since 2010/11). Further reductions of 7% p.a. have been included for budget planning purposes for 2015/16 and subsequent years. In addition there are to be reductions from 2015/16 onwards in respect of the transfer of the fraud team from 1 November 2014 to the Department for Work and Pensions (DWP).

Investment in Council Assets

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

63. The council has continued to invest in its industrial units, with major refurbishment of the Stirling Road incubator units and works being undertaken for units in Theaklen Drive relating to the Answers in the Carbon Economy (ACE) project. A feasibility review is currently underway for building a new industrial unit at Castleham.

64. The council's Renewals and Repairs Fund is reviewed on a regular basis in order to ensure sufficient resources are available to fund necessary works.

Delays in Receiving Capital Receipts

65. The council's original land disposal programme for this financial year was estimated to produce capital receipts amounting to £1,774,000 in 2014/15, £1,250,000 in 2015/16, and £50,000 in 2016/17.

66. A number of revisions to the programme will be made as part of the 2014/15 budget process. The expected receipts from disposals in 2014/15 are now estimated at round £1,140,000 with the remaining disposals reprofiled into future years.

67. Capital receipts will continue to be received in the period of the strategy, but given the state of the property market careful timing of any asset sales is required.

An indicative estimate is as follows:-

2014/15	£1,140,000
Land at Redgeland Rise	
Land /old toilet block Rock a Nore	
Bridge Cafe	
Warren Cottage	
Harold Road	
Sale of Ex Council Houses	
2015/16	£1,450,000
Robsack A	
Land at Summerfields	
Mayfield E	
Sale of Ex Council Houses	
2016/17	£800,000
Upper Wilting Farm	
Sale of ex Council Houses	

68. In addition to the sites listed above opportunities for other asset sales and disposals continue to be explored.

69. It remains imperative that the council maximises its capital receipts. Failure to do so may necessitate curtailment of the already very limited capital programme or result in the council having to borrow.

Priority Income and Efficiency Reviews (PIER) Process

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

    The objectives of the process are as follows:-

    - To provide services with an opportunity to submit proposals for the business plan. The proposals include all unavoidable growth and savings amounts.
    - To allow service delivery proposals to be measured against the corporate plan objectives.
    - To provide a mechanism for challenging service proposals in an informed, robust and constructive fashion.
    - The revenue estimates and the capital programme are closely linked. As such service bids for capital funding are considered at the same stage.
    - The review of the budget through the PIER process ensures appropriate overview and scrutiny of the options.

71. In addition to the annual PIER process the council continues to have a programme of areas to review e.g. service reviews, in order that efficiencies continue to be achieved, monitored and potential new areas identified.

72. The scale of the budget savings required to balance the budget on a sustainable basis for 2015/16 and beyond is large. The time between the identification and the achievement of savings can be significant and the council will need to be prepared to use a greater proportion of its reserves to balance the budget and also potentially for future invest to save initiatives.

Pension Fund Contributions

73. The council's contributions to the pension fund managed by East Sussex County Council are determined every three years following an actuarial valuation. A new valuation was undertaken in 2013 with revised contribution rates becoming payable from April 2014.

The rates payable by the council consist of the primary contribution rate plus 1% for future early retirements/redundancies (these are percentages of salaries of staff in the pension scheme), namely:

2014/2015 - 20.6% +1% + lump sum of £144,000
2015/2016 - 20.6% +1% + lump sum of £194,300
2016/2017 - 20.6% +1% + lump sum of £248,800

74. It should be noted however that the level of redundancies, early retirements, and transfer of services can significantly affect the valuation, and this will remain a risk to the council in 2017/18 and beyond.

National Insurance Contributions

75. As part of the Budget on 20 March 2013, the chancellor announced that changes to the single-tier state pension will be brought forward one year to 2016/17. The changes will mean increased National Insurance (NI) contributions for contracted out employees and higher NI contributions for employers. This has been estimated to cost local government employers £1 billion nationally.

76. Based on the current number of contracted out employees, the initial cost estimate for the council is some £360,000 p.a. The Chancellor stated that "public sector employers will have to absorb the burden, as is always the case with tax changes" before adding that "any spending review in the next parliament will, of course, take the £3.3 billion cost into account". It remains to be seen how transparently these costs are acknowledged, or whether they would simply be absorbed into overall RSG changes and therefore be unidentifiable. As a new burden government funding could reasonably be expected, however there is no indication to date that they will fund this and hence the initial estimate has been included in the funding estimates – thus increasing the shortfall.

Staffing, Information Technology and Property

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

78. A number of staff within the council are employed on temporary or fixed term contracts to match the temporary funding streams received. Where such funding streams may end it is necessary to identify exit strategies in order to meet any redundancy costs or to mainstream successful initiatives.

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

Grants

80. The council receives a number of revenue grants each year e.g. New Homes Bonus, but has also been very successful in attracting numerous "one off" type grants in the last couple of years e.g. Future Cities, and Active Women Programme, European funding. The council will continue to look to attract such funding in the years ahead.

New Homes Bonus

81. This grant regime commenced in April 2011. This is a grant that rewards the building of new houses and for bringing long term empty properties back into use. The bonus is payable for a period of 6 years. The sums receivable :-

Year	In Year	Prior Years	Total Receivable
	£	£	£
2011/12	194,710		
2012/13	189,838	194,710	384,548
2013/14	119,097	384,548	503,645
2014/15	382,670	503,645	886,315
2015/16 Est	130,000	886,315	1,016,315
2016/17 Est	100,000	1,016,315	1,116,315

82. Councils are using the bonus in different ways, either to help balance budgets, strengthen reserves, or for one off activities that do not add to ongoing spending commitments. Hastings is using the monies received to help achieve a balanced budget.

83. The New Homes Bonus has been an important part of the government's effort to use funding to incentivise growth. The grant is currently funded by top-slicing the general formula grant and there are already real concerns over the re-distributional effects which can disadvantage deprived areas of the country with lower house prices or in areas where developers are less likely to want to build or where land is expensive to develop.

84. It has been estimated that a further £130,000 will be received in 2015/16 (in addition to the £886,315) and that an additional £100,000 will be received for 2016/17.

85. There is a real risk that this grant regime could be ended.

Indicative Base Budget Position for 2015/16 to 2017/18 and Assumptions

86. An Indicative budget forecast for the 3 year period 2015/16 – 2017/18 has been produced (Appendix 1) to reflect the issues raised as part of the review of the MTFS. This is indicative given the uncertainty surrounding the costs of some of the financial pressures and funding levels and the recognition that further work is required to refine these figures before the budget is finalised on 25 February 2015.

Summary of Financial Position

	2014/15 (£000's)	2015/16 (£000's)	2016/17 (£000's)	2017/18 (£000's)
Expenditure	17,292	16,807	17,534	17,838
Funding	(16,722)	(15,310)	(15,052)	(14,385)
Funding Shortfall	570	1,497	2,483	3,453
Use of Reserves	(570)	(950)	(950)	(385)
Estimated Shortfall	0	547	1,533	2,868

87. The table above shows deficits of £1.5m in 2015/16, £2.5m in 2016/17 and £3.5m in 2017/18, before the use of reserves. The above figures do not take account of PIER savings that will be presented as part of the budget setting process.

Council Tax

88. The government has awarded grants from 2011/12 onwards if the council freezes Council Tax. For 2014/15 the government announced a similar scheme. This time the council received a grant equivalent to a 1% increase in Council Tax and this is being rolled into the Settlement Funding Assessment. In practical terms a Band D Council Tax payer continues to pay £235.85 in 2014/15 in respect of the Hastings demand. For 2015/16 a similar scheme to 2014/15 is anticipated – details awaited.

89. The council has a record of lower than average tax increases.

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

90. In considering any Council Tax increase in 2015/16 because of the fact that the council taxbase has decreased (due to the Council Tax Support Scheme and the government now paying grants to individual councils) 1% on the Council Tax will equate to around £55,000. In 2014/15 the freeze grant payable was still based on the 2012/13 taxbase i.e. some £70,000.

91. For 2014/15 the government announced that should a council wish to increase Council Tax by more than 2% it will be required to hold a referendum (in 2012/13 the threshold was 3.5% and in 2013/14 was 2%). At the time of writing the percentage for 2015/16 is not yet known.

92. As previously stated the MTFS includes the assumption of a 1.9% increase in Council Tax for 2015/16.

CAPITAL

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

(a) Contribute towards achieving the council's corporate priorities
and one or more of the following,

(b) be of a major social, physical or economic regeneration nature,

(c) meet the objective of sustainable development,

(d) lever in other sources of finance such as partnership/lottery funding or provide a financial return for the council,

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

94. The council's capital programme for 2014/15 and the next 2 years, as approved in February 2014, amounts to some £6.8m (£2.4m net of grants and contributions). The capital programme will be considered as part of the budget process and decisions taken in the light of available resources.

95. Current schemes include Coastal Space regeneration project - £3.62m, Disabled Facilities Grant – some £720,000 p.a., CCTV - £360,000, Empty Homes Strategy - £250,000, £804,000 in respect of the restoration of Pelham Crescent/ Arcade, £250,000 in respect of Castle Access/Interpretation, Public Realm improvements, and groyne refurbishments.

96. Incremental impact on Band D Council Tax: In determining the affordability of new capital proposals the council is required to consider the incremental impact on the Council Tax for future years. The impact is expressed in Band D equivalent amounts on the Council Tax. The purpose is to give the council the opportunity to consider options for capital proposals and to highlight the potential future financial burden of capital investment decisions. Some capital investments will generate efficiency savings which go part way to mitigating the revenue implications.

97. For the purposes of planning the council uses 9% as the cost of capital (4% capital repayment and 5% in respect of long term interest). If an asset has a shorter life (than 25years) then the capital repayment percentage (4%) must increase e.g. percentage becomes 10% for an asset with a 10 year life.

98. Whilst the capital programme is significantly reduced over the forthcoming years, opportunities are still being sought for funding.

99. There is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area in a period of economic uncertainty - and also given the increase in competition for tenants. The council maintains a Renewal and Repair Reserve for significant items of programmed work. Where major works or alterations are required these will be included within the capital programme.

Minimum Revenue Provision (MRP)

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

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

101. The council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired. Should the existing financing assumptions alter, and additional borrowing is required, there will be a direct and additional pressure on the revenue budget.

102. The MRP increases in 2015/16 as a result of additional borrowing in 2014/15.

Reserves

103. The strategic reasons for holding reserves are:-

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

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

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

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

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

104. It should be noted that capital receipts can generally only be used for capital purposes. Reserves and movements thereof will be reviewed as part of the budget process.

105. For the purposes of the strategy reserves at 31 March 2015 are estimated to consist of:-

General Reserves	**Estimated Balance at 31.3.2015 £‘000s**
Revenue Reserves	6,319
Capital Reserve (Revenue monies)	1,467
Total	**7,786**

Earmarked Reserves	Estimated Balance at 31.3.2015 £'000s
Renewals and Repairs Reserve	1589
Insurance & Risk Management Reserve	260
IT Reserve	0
On-Street Car Parking Surplus Reserve	52
S106 Reserve	280
VAT Reserve (incl. Senior and Youth support &Capital contributions)	225
Government Grant Reserve	412
Land Charges Claim	140
Monuments in Perpetuity	42
Ore Valley	245
Mortgage Reserve (LAMS)	92
Invest to Save and Efficiency Reserve	404
Resilience and Stability Reserve	600
Transition Reserve	1,885
Redundancy Reserve	544
Community Safety Reserve	350
Economic Development Reserve	485
Total	**£7,605**

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

107. The protection of key services remains of crucial importance to the council and the Transition Reserve, Economic Development Reserve and Community Safety Reserve has provided the council with the opportunity to protect some key services and activities into the future e.g. the ability to attract new employers to the town remains a key priority. The strategy identifies the use of these reserves in 2015/16 and beyond.

108. The budget report will advise further on the minimum level of reserves to be maintained. Given the future grant losses, the need to transform services on a continuing basis until 2018 and potentially beyond, and the need to cope with unexpected events or claims the minimum level of reserves retained was increased to £4.5m. The claim from Manolete partners in respect of the pier and restricted access is an example of the need to retain adequate reserves.

109. At 31 March 2015 General and Capital Reserves will amount to an estimated £7.7m, of which some £300,000 is already committed for the empty homes strategy and the cultural regeneration in 2016/17. The balance and use of the reserves will be considered further as part of the budget process and be determined in light of the 2015/16 settlement and indicative 2016/17 settlement.

Budget 2015/16 and beyond

110. On the basis of the government's July 2013 Spending Round, the council can expect funding cuts of some 15.3% in 2015/16. Given the desire to cut the budget deficit further it can be reasonably anticipated that further cuts will occur in the years beyond too - some projections are for continued reductions until 2020.

111. To help ensure that the council can continue to deliver key services over the next three years and continue the process of transformation to a lower spending council, the use of specific reserves established from the Transition Grant and the partial use of general reserves is proposed.

112. A balanced budget was set for 2014/15 following the achievement of numerous efficiency and PIER savings and after allowing for partial use of the Transition Reserve.

113. To achieve a balanced budget in 2015/16 (without using reserves) savings of £1,497,000 need to be identified. This figure reduces to £547,000 after allowing for part use of the Community Safety Reserve (£100,000), part use of the Economic Development Reserve (£100,000), and £750,000 from the Transition Reserve.

114. To achieve a balanced budget in 2016/17 (without using reserves) savings of £2,483,000 need to be identified. This figure reduces to £1,533,000 after allowing for part use of the Community Safety Reserve(£100,000), part use of the Economic Development Reserve (£100,000), and a further £750,000 from the Transition Reserve.

115. These figures do need to be treated with some caution given that there are more uncertainties than ever in the budgeting process. The volatility in income streams has increased in respect of the business rate retention scheme.

116. The Reserves policy, to be determined as part of the budget process, will continue to take account of these risks, and will also need to take into account the ability of the council to address the indicative funding gaps within the timescales identified. For the purposes of financial planning the use of £750,000 of reserves for 2015/16, £750,000 for 2016/17 and £385,000 for 2017/18 has been included within the strategy which would still leave the council with sufficient reserves to meet significant and unexpected expenditure items.

117. The strategy does identify a number of areas that will be further reviewed as part of the budget process that could reduce the funding gap. These include the level of ongoing savings included within the existing budget (some of which will be identified as PIER).

118. A key determinant of the gap is however the funding settlement in December 2014, this will determine the level of grant receivable in 2015/16 and provide an indication for 2016/17. Future business rate income remains uncertain particularly given the level of outstanding rating appeals, bad debt provisions and small business rate relief.

119. In view of the reduced resources available in 2015/16 and beyond the council will need to continue to review the level of service it can provide and transform the way it delivers those services.

Risk Management

120. Numerous risks are highlighted in this strategy, and further comment is made below. To balance the budget the council continues to seek efficiency savings, review the capital programme, review fees and charges, and identify cuts in services and staff numbers. It will need to further prioritise its objectives and identify where it will need to make savings to balance the budget in the years ahead.

121. Given the long term uncertainty in funding streams the council needs to take every opportunity to strengthen reserves, whilst using them to continue to transform itself to a lower spending council. The council also needs to ensure that it continues to invest in its people, its IT services and its commercial assets. The council continually seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, identify income generation opportunities and ensure that potential savings are monitored and achieved.

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

123. Key financial risks to the council in future years include:-

i. Government funding, including the New Homes Bonus grant

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

iii. Council Tax Support Scheme and Council Tax collection rates

iv. Income Streams – preservation and enhancement

v. Joint working/ shared services. The council is looking at further joint and partnership working

vi. Staffing / Knowledge management. The loss of key staff through early retirement or redundancy.

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

The Council Tax Support Scheme was introduced from April 2013 accompanied by government funding reductions of 10%. Whilst the council mitigated much of the impact on those claiming benefits it may not be able to do so to the same degree in the future following further reductions in government support. There remains the additional risk of increased benefit payments being made in the year – the financing risk now falling on the council. To help protect the council a Resilience and Stability Reserve was established for 2013/14 onwards to help meet any unavoidable additional costs that arise in the year. It remains too early to tell whether there will be a call on the reserve this year.

viii. Restructuring Costs

In order to make savings of the magnitude required, the council will need to reconsider what services it can provide and to what level. Further restructuring is inevitable if a sustainable budget is to be achieved in the years ahead. Voluntary and/or compulsory redundancies have large financial consequences for the authority, both in terms of direct payments but also generally on the pension fund - in addition to the effect on the capacity of the organisation and knowledge management implications. The council established a redundancy reserve (£769,000) which will assist in transforming the council to a lower spending organisation in the years ahead.

ix. Treasury Management – investment security and level of returns.

x. The Economy
The economic and financial instability in the world continues to be major risk.

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

Equalities and Community Cohesiveness

125. The equalities implications of the budget proposals are the subject of an Equalities Impact Assessment.

Consultation

127. The 2015/16 budget proposals will be consulted upon from the middle of January 2015 and will be considered by Cabinet on the 16 February 2015.

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Revenue Budget Forward Plan

Appendix 1

Ref			2014-15 £000's	2015-16 £000's Budget	2016-17 £000's Projection	2017-18 £000's Projection
1	**Net Service Expenditure**		16,389	16,717	17,051	17,392
2	Redundancy Provision					(225)
3	Capital reserve funded items					(125)
4	Govt grant reserve Funded items					(184)
5	S106 revenue funded items					(84)
6	On street parking reserve					(23)
7	Older/ Younger People			(35)	(35)	(35)
8	Local Development Framework			(78)	(78)	(78)
9	One-off Waste start up costs			(73)	(73)	(73)
10	Traffic Management Signage			(37)	(37)	(37)
11	Pension Fund - Employers Contribution Increase			50	104	104
12	Election Costs (bi-annually)			(70)	0	(70)
13	Aquila House Rental			0	25	25
14	Aquila House Rental - additional letting Income				(70)	(70)
15	Business Rates Revaluation			25	25	25
16	Fees and Charges			(60)	(120)	(180)
17	Invest to Save Initiatives				(196)	(300)
18	IT - profiled Spend			(95)	(95)	(95)
19	Pebsham Landfill Site income			17	27	36
20	National Insurance (Pensions - no contracting out)				360	360
21	Further planned PIER savings (agreed Feb 2014)			(47)	(67)	(84)
22	Land Charges - Part transfer to Land Registry				42	42
23	PIER Savings (To be determined)					
24	Revenue Savings (2013-14 Outturn review)			(267)	(267)	(167)
28	Contingency Provision		400	400	400	400
29	Interest Payments (net of earnings)		181	181	169	169
30	Contributions to Capital from grant and reserves		636	636	636	636
31	Minimum Revenue Provision		520	534	551	551
32	Contribution to Reserves		1,040	639	639	639
33	Net Use of Earmarked Reserves		(1,874)	(1,630)	(1,457)	(711)
34	**Net Council Expenditure**		**17,292**	**16,807**	**17,534**	**17,838**
35	Taxbase		23,733	23,780	23,828	23,876
36	Council Tax	1.90%	235.85	240.33	244.90	249.55
37	**From Collection Fund - Council Tax**		(5,597)	(5,715)	(5,835)	(5,958)
38	**From Collection Fund - Business Rates**		(3,151)	(3,086)	(3,138)	(3,138)
39	**Revenue Support Grant**		(3,886)	(2,664)	(1,925)	(1,186)
40	**Council Tax Freeze Grant**		(70)	(70)	(70)	(70)
41	**Efficiency Support Grant**		(975)	(975)	(975)	(975)
42	**New Homes Bonus**		(886)	(1,016)	(1,116)	(1,136)
43	**Disabled Facilities Grant**		(666)	(666)	(666)	(666)
44	**Housing Benefit Admin Grant**		(986)	(916)	(846)	(776)
46	**Business Rates Section 31 Grant**		(467)	(477)	(480)	(480)
47	**Council Tax (Surplus)/Deficit**		(37)	(212)	0	0
48	**NNDR (Surplus)/Deficit**			487	0	0
49	**New burdens grant**			**0**	**0**	**0**
50	**Contribution To General Fund**		**(16,722)**	**(15,310)**	**(15,052)**	**(14,385)**
51	**Funding Shortfall / (surplus)**		**570**	**1,497**	**2,483**	**3,453**
52	**Use of General Reserve**	Carry forwards	(233)			
55	**Use of Transition Reserve (£2,222k)**		(337)	(750)	(750)	(385)
56	**Use of Community Safety Reserve**		0	(100)	(100)	(100)
57	**Use of Economic Development Reserve**		0	(100)	(100)	(100)
58	**Net Funding Shortfall / (Surplus)**		**0**	**547**	**1,533**	**2,868**

Key Assumptions

(1) General Inflation has been assumed of 2% for 2015/16 and beyond. Wage inflation: 2.2% assumed from January 2015 to April 2016 plus ½% p.a. representing contractual increments.

(2) Lines 2 to 10 represent adjustments for reserve funded items. The Local Plan requirement – the spending profile will be determined as part of the budget process.

(11) Pension fund cost increases – as per three yearly revaluation.

(12) Local elections – the costs are budgeted for in 2016/17 (these occur every two years).

(13) Full year cost of Aquila House leases expected in 2016/17

(14) Estimate of additional rental from letting out vacated floor in Aquila House

(15) Non Domestic Rates – the government phased in the impact of the last revaluation. The figures are being reviewed as part of the budget setting process.

(16) A general 2.5% increase in fees and charges, matching inflationary increases incurred, is identified for the purposes of this strategy – except in respect of car parking income and some statutory fees.

(17) No further contributions for invest to save initiatives beyond 2016/17

(18) Revised spending profile on IT

(19) Revised income profile on Pebsham Landfill site.

(20) National Insurance – estimated cost of additional NI contributions

(21) PIER savings already agreed - see 2014/15 budget

(22) Land Charges Income – reduced income following transfer of responsibility

(24) to (26) Revenue savings identified – to be included in 2015/16 budget

(37) A Council Tax increase of 1.9% for 2015/16 and for the following 2 years has been included for the purposes of this Strategy.

(38) Business Rates - Nil growth has been assumed for the purposes of this strategy. However the baseline is increased in line with inflation – as are annual rate bills. The amount of rates collected is potentially volatile and dependent upon levels of rating appeals, small business rate relief, and the economic environment. The estimates forming a key aspect of the council's budget process.

(39) Revenue Support Grant - this forms part of the Settlement Funding Assessment. The actual figures for 2015/16 and indicative figures for 2016/17 will be released in early December 2014. Homelessness grant, Council Tax Freeze grant, and Council Tax

Support Grant are generally now rolled into the Settlement Funding Assessment.

(40) Council Tax Freeze Grant: The £174,000 from 2011/12 was funded for the four years of the CSR 2010. The £174,000 in respect of 2012/13 was funded for one year only and therefore ceased for 2013/14. The 2013/14 grant of £70,012 was rolled into the Business Rates/ Revenue Support Grant baseline funding for 2014/15.

(41) Efficiency Support Grant – a further £974,522 has been received in 2014/15. A progress report was submitted in October 2014 to the DCLG and subject to acceptable performance the Efficiency Support Grant will be included in the 2015/16 settlement. A figure of £974,522 has been allowed for in 2015/16 for budget planning purposes but there remains a risk that not all may be received.

(42) New Homes Bonus – additional sums are expected in 2015/16 and the following 5 years following from an external review of empty properties. Funding in 2015/16 and beyond is however subject to government review.

(43) Disabled Facility Grant – the figures are estimates of government grant funding.

(44) Housing Benefit Administration Grant. The council suffered a reduction of £70,000 in 2014/15. For budget planning purposes a decrease of 7% has been assumed for the next 3 years in line with previous government announcements in addition to the reduction from the transfer of fraud staff to the DWP with the consequent reductions in grant funding.

(46) The government extended the small business rate relief scheme to 31 March 2015. This results in the loss of business rate income to the council. The government reimburses the monies by way of a one off grant (termed section 31 monies). The amount and timing of the payment remain uncertain for 2015/16 and beyond.

(55) Transition Reserve – The council has been prudent over the last few years and has taken the opportunity to strengthen reserves whenever possible to help ease the transition to a lower spending council in the years ahead. The council agreed to strengthen this reserve from the General and Capital Reserves in the sum of £1.5m and use the Transition Reserve to support the budget over the 3 year period of 2014/15 to 2016/17. Given the anticipated reduced expenditure requirements for 2014/15 the Transition Reserve may extend to support funding in 2017/2018.

(56) Community Safety Reserve – established as part of the 2011/12 budget from Transition Grant (£350,000). The use of this reserve in 2015/16 is proposed in order to continue provision of services and activities in this area.

(57) Economic Development Reserve – established as part of the 2011/12 budget making process from Transition Grant (£400,000) specifically earmarked for job creation activity. The use of this reserve in 2015/16 is proposed in order to continue the provision of services and activities in this area.

(58) Funding Gap: the predicted deficits in 2015/16, 2016/17 and 2017/18 are £1,497,000, £2,483,000 and £3,453,000 respectively. After allowing for use of the Transition Reserve over three years, the savings required amount to £547,000 in 2015/16, £1,533,000 in 2016/17 and £2,868,000 in 2017/18.