APPENDIX A

Medium Term Financial Strategy 2019/20 to 2022/23

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 government's deficit reduction programme continues to result in significant and ongoing reductions in funding for the Council. The period over which these reductions will last continues to have far reaching effects for the levels of service that the Council can continue to provide. The Council continues to find itself in a very challenging financial period that is anticipated to extend beyond 2022/23. 2019/20 is the last year of the government's four year settlement offer. This provided a degree of certainty for at least a part of the Council's funding stream (until 2019/20) – albeit there are still very significant year on year reductions. 2020/21 sees wholesale changes in the way in which local authorities are funded.

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. To this end the MTFS seeks to project the funding position to 2022/23.

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 2019. The corporate planning process ensures there is full integration of all key strategies and the policies of the Council.

6. The Council has experienced funding reductions of over 64% between 2010/11 and 2018/19 on a like for like basis. The government's autumn budget in November 2018 is expected to give details of spending plans for the year ahead and given the scale of the national deficit and exit from Europe the funding reductions can now be expected to continue well beyond 2022/23.

7. Health, schools and development assistance have been protected which means that the cuts in Departmental Expenditure Limits (DEL) have fallen disproportionately on the remaining public services including local authorities. This policy is not expected to change significantly.

8. This report updates the MTFS taking into consideration known factors and makes broad assumptions on funding for 2019/20 and the years thereafter as well as making assumptions around service and corporate pressures.

9. Announcements made last year surrounding the retention of 75% of business rate income by local authorities by the end of the parliament, and the Fair Funding review will undoubtedly change the projected figures included within this strategy document. The strategy will be updated as and when details and implications emerge in the years ahead. Additional resources cannot however be anticipated.

Strategic Priorities

10. The Council’s strategic priorities were reviewed for 2018/19 in the light of the continuing challenges that the Council and the community face. They may be reviewed for 2019/20 in the light of these continuing challenges. They are:-

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

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

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

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

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

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

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

11. 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 will look to enhance income streams too. It continues to be well placed to deliver the programme in 2019/20. Significantly reduced resources will however inevitably impact on service delivery in the years ahead.

Key Principles of the Medium Term Financial Strategy (MTFS)

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

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

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

(ii) Maintain a sustainable revenue budget

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

Whilst the principle remains sound the Council had consciously strengthened its reserves 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 required the use of these reserves to achieve balanced budgets in 2018/19 and will need to do so again in each of 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). The Council established an Invest to Save Reserve to assist in this regard.

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

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

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

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

(vii) Ensure sufficient reserves are maintained.

Some reserves, having been built up in the last few years, are specifically identified to ease the transition to a lower spending Council and to meet key corporate priorities. A hardship fund was established in the February 2016 budget. Volatility within business rates and the Council Tax Support scheme resulted in the establishment of a separate reserve to smooth some of the fluctuations.

(viii) Ensure value for money is achieved in the delivery of all services and that the Council seeks continuous improvement of all services.
It should be noted that the report produced by the Council's external auditors in July 2018 on the Final Accounts gave a positive opinion on the Council's provision of value for money services.

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

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

Local Government Spending Control Totals

13. The Chancellor's November 2015 autumn statement identified that the real term reductions in local government funding would be some 24% over the following four years. This was on top of the reductions identified in the Comprehensive Spending Review of 2010.

14. **External Funding – Grant Settlement (Multi-year Settlement)**

    The 4 year settlement period covers 2016/17 to 2019/20. It details the Revenue Support Grant and the levels of Business rates that the government expects Councils to retain – the two figures combined make up the Settlement Funding Assessment (SFA).

Table: Settlement Funding Assessments – Four Year Settlement

Year	Settlement Funding Assessment (£ 000's)	Decrease (£ 000's)	Percentage Change (Annual)	Percentage Change (Cumulative)
2015/16	£7,194			
2016/17	£6,331	-£863	-12.0%	-12.0%
2017/18	£5,605	-£726	-11.5%	-22.1%
2018/19	£5,216	-£389	-6.9%	-27.5%
2019/20 (Est)	£4,743	-£473	-9.1%	-34.1%

15. In terms of the cash grant that the Council receives from the government (Revenue Support Grant) the Council lost some £496,000 in Revenue Support Grant in 2018/19, and expects to lose a further £554,000 in 2019/20. By then the Council will have lost £2,739,000 (73.5%), leaving a grant allocation of some £988,000 as per the table below.

Table: Revenue Support Grant – Four Year Settlement

Year	Revenue Support Grant (£ 000's)	Decrease (£ 000's)	Percentage Change (Annual)	Decrease (Cumulative) (£ 000's)	Percentage Change (Cumulative)
2015/16	£3,727				
2016/17	£2,835	-£891	-23.90%	-£891	-23.90%
2017/18	£2,038	-£797	-28.10%	-£1,689	-45.30%
2018/19	£1,542	-£496	-24.30%	-£2,185	-58.60%
2019/20 (Est)	£988	-£554	-35.90%	-£2,739	-73.50%

16. Discretionary Housing Payments (DHP's). This government grant which is managed by the Council assists many claimants who are coping with a multitude of welfare benefit changes. The grant figure for 2018/19 amounted to £381,729 a reduction of £30,425 from 2017/18 (2017/18 £412,154).

Summarised Grant Position

17. The level of grants received from the government between 2010/11 (the year before the previous Comprehensive Spending Review) and 2018/19 have decreased by over 64%. For the period 2010/11 to 2020/21 the reduction in cash grant funding is estimated at 72% on a like for like basis (i.e. excluding Council Tax Freeze Grant, Homelessness Grant and Council Tax Support Grant in order to provide a clear comparison). These figures are all based on cash and exclude the effects of inflation (the inclusion of which would increase the % reductions even more).

18. The Revenue Support Grant that the Council will lose in 2019/20 i.e. £554,000 is significant but is not the only reduction expected. New Homes Bonus is set to decrease in the years ahead as is the Benefit Administration grant as the country moves towards Universal Credit and away from housing benefit.

Core Spending Power

19. The government have identified a measure termed “Core Spending Power” which they state sets out the expected available revenue for local government spending through to 2019/20 using Office of Budget Responsibility (OBR) estimates.

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

(i)The Modified Settlement Funding Assessment amounts,

(ii)The Council Tax requirement (excluding parish precepts).

(iii) New Homes Bonus

Table: Government Projection of the Funding the Council will retain after 4 years.

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

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

22. In practice however when looking at the year on year reductions in funding the figure is not helpful. The overall reduction in Settlement Funding Assessment (Business Rates, Revenue Support Grant and other rolled in grants) for 2019/20, is 9.1% - just in 2019/20. In real cash terms the Revenue Support Grant reduces by 35.9% (£554,000) in 2019/20 alone. New Homes bonus is some £650,000 in 2018/19 compared to the government's assessment of £771,000. The figures do not include other funding received from the government such as Housing Benefit Administration grant.

FINANCIAL CONTEXT - The National Economic Climate

23. UK. Growth in 2017 was disappointingly weak in the first half of the year but picked up to 0.5% in quarter 3 and 0.4% in quarter 4. Growth in quarter 1 of 2018 was again disappointing, although on the first revision the rate improved from 0.1 to 0.2% to allay fears that the economy may have started a prolonged period of very weak growth. Initial indications in quarter 2 are that growth may have picked up speed to around 0.4%. The main reason for weak growth during 2017 and 2018 has been that inflation has been exceeding pay growth until recently, meaning that there has been negative growth in consumer disposable income when consumer expenditure is the biggest driver of the services sector which accounts for about 75% of GDP.

24. The manufacturing sector was the bright spot in the economy in 2017 in terms of strong growth but quarter 1 was the weakest quarter for one and a half years and forward indicators do not suggest a return to strong growth is likely. Unemployment is very low at 4.2%.

25. During January and February financial markets were viewing a Bank Rate increase at the May Monetary Policy Committee (MPC) meeting as likely to be a near certainty after strong growth in the second half of 2017. However, the ensuing weeks before the meeting saw opinion turn right around and the MPC did not disappoint by leaving rates unchanged due to concerns as to whether the weak growth in quarter 1 was indicative of the start of a prolonged slow down or just a temporary blip, to which bad weather had been just one contributor. Since May, opinion again turned to suggest that an August Bank Rate increase was back on the cards, and so it has proved with rates increasing to 0.75% on 2 August 2018.

26. However, there remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, so it is still far too early to be confident about how strong growth and inflationary pressures will be over the next few years, and therefore the pace of any rate increases. No further rate increases are expected until at least 2019, and indeed could reduce if Brexit sees a rapid decline in growth.

27. 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 are being critically reviewed.

Risks and Opportunities

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

- External funding in terms of the government's Spending Review 2019 (SR19), the retention of business rates in 2020/21, and the Fair funding review (with new grant funding regime in place from 2020/21).

- Business Rates Retention Scheme – the new funding regime that 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. The move to 75% retention (from the current 50%) in 2020/21 passes on the additional risks of volatility to councils – the implications will be very much in the detail, which is awaited.

- Business Rate Appeals – This remains one risk that is proving particularly costly at present and remains difficult to estimate. The Council has been picking up the cost of revised rating determinations that stretched back as far as 2005 which has led to large deficits on the collection fund. The appeals provision within the Council's accounts amounted to some £3.217m at 31 March 2018 of which HBC's share is some £1.287m. Currently some £10.1m by rateable value (excluding multiple appeals) remains the subject of appeal within Hastings.

- 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 - homelessness

- Delivery of the identified PIER savings.

- Pension Fund Performance and changes to the national scheme

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

- Re-letting of the Waste and Street Cleaning Contracts – The costs to the Council look set to increase substantially from July 2019. The additional costs for the Street cleaning service are estimated at some £400,000 p.a. the loss of recycling credits being some £220,000 p.a. and additional costs for waste collection at the time of writing are unknown. As such some £400,000 p.a. is being included within the strategy for budget projection purposes for waste collection from 2019/20 onwards. The total additional annual costs amounting to some £1,020,000. In its forward projections the Council had expected an increase in costs but not to this level.

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

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

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

- The biggest opportunities that the Council is looking at are for income generation/cost reductions. The level of investment both in terms of commitment, resources and particularly new borrowing is significant. This is particularly relevant in a period of rising interest rates, and greater levels of control being placed on local authorities by government.

Council Tax and Business Rates

29. The current funding gap in the MTFS assumes an increase in Council Tax of £5 or 2.99% in 2019/20 and 2% each year thereafter. In determining the actual level of Council Tax for 2019/20 the Council will need to take into consideration the government's referendum principles which for 2018/19 were based on the requirement to hold a referendum for increases that were above £5 as well as exceeding 3% or above.

30. The taxbase for 2019/20 is expected to be 1.5% higher, as a result of additional properties and a significant reduction in the Council Tax Support being claimed. The effect is to increase the taxbase from 25,582 to 25,965 (worth some £98,000 p.a. to HBC alone). Each 1% increase in Council Tax would yield approximately £67,000.

31. The 2019/20 budget projection assumes a further contribution of £145,000 from the Council's Collection Fund in respect of Council Tax due to a good collection record. However there remains a deficit in business rates income mainly caused by the high level of successful rating appeals. An estimated deficit of £104,000 has currently been included in the strategy but this figure could be amended significantly before the year end.

Business Rate Retention Scheme

32. 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).

33. 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.

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

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

36. 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.

37. Assumptions are made on national, regional and local growth as well as valuation appeals and collection rates.

38. The government after determining the business rates baseline levels included small business rate relief within its own budget proposals. This effectively reduced Councils' income. The government is reimbursing authorities for this lost income which is now estimated to amount to some £1,113,000 for Hastings in 2018/19 and will be similar in 2019/20.

39. The Council re-entered into a pooling arrangement with the other East Sussex Authorities for 2018/19 onwards. The strategy currently assumes some £57,000 p.a. of benefit to the Council. This figure will be revised when determining the revised budget.

40. 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

41. The Council has limited reserves and remains reliant upon income streams and investment returns to balance the budget. Given the welfare changes and low wage settlements there are continuing implications for a number of the Council's income streams in the medium term. Rental streams from shops remain under considerable pressure e.g. Priory Meadow, and limited rental growth income can be anticipated for some years ahead.

42. 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 a minimum of inflation. However car parking charges were last increased in February 2017 for a 12 month period. Council determined not to increase car park charges when determining the budget in February 2018.

Income Generation

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

44. Over the last 24 months initiatives which generate new income streams (and savings from purchasing Muriel Matters House) have secured some £1.7m in a full year, Namely:

Location	Est Income - 18/19	MRP and Interest	Net Additional Income
	£	£	£
Muriel Matters	321,000	220,800	
MM Shops	41,000		
Totals	362,000	220,800	141,200
Town Hall	97,000		97,000
Sedlescombe Rd North	465,067	294,613	170,454
BD Food Factory	40,000	91,488	(51,488)
Sea Front Kiosks	7,900	0	7,900
Bexhill Rd Retail Park	547,080	356,660	190,420
Sedlescombe Rd North (2)	86,000	50,000	36,000
Property Fund	85,000	0	85,000
Totals	1,690,047	1,013,561	676,486

Against the £1.7m there have been, or will be, additional ongoing borrowing costs in terms of Interest and principal repayments (or provision made for them i.e. Minimum

Revenue Provision). These are estimated at £1,013,000 in 18/19 year leaving the net additional resources available to the Council as some £676,000 p.a.

45. Given the significant funding reductions in the years ahead and the freedoms available for competent Councils, the Council is looking to increase the income it can generate through trading which in turn may require further companies to be set up. Each and every opportunity will, like now, need to be supported by a careful evaluation of the opportunities and associated risks. To this end an Income Generation Board was established which will operate within the Council's governance arrangements.

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

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

47. The table below shows the original income projections for the main initiatives – as at 11 September 2017.

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

48. The income projections were refined for the 2018/19 budget particularly around energy with £80,000 of net income being allowed for compared to the £280,000 in the Income generation strategy projection. These estimates are being revised further for an updated strategy document.

49. The latest projections are as follows:

Revised Income Projections	2018-19 Original Budget £'000s	2018-19 Revised Budget £'000s	2019-20 Projection £'000s	2020-21 Projection £'000s	2021-22 Projection £'000s	2022-23 Projection £'000s
Commercial Property	373	387	487	570	570	570
Housing Company	60	57	128	164	164	164
Energy	80	52	115	115	115	115
Totals	**513**	**496**	**730**	**849**	**849**	**849**

For 2019/20 the income projection of £730,000 in respect of the strategy represents a £527,000 reduction against the September 2017 strategy document and a reduction of £347,000 against the future year's forecast included in the 2018/19 budget document. This wholesale revision significantly changes the projected deficits for future years.

50. Given the funding gap that remains, the Council will need to consider its appetite for further risk, where the best opportunities lay which can also generate sustainable income streams and its ability to identify further efficiencies or reductions in services.

Investment and Borrowing

51. The relatively low levels of interest received on investment balances looks set to continue, albeit base rates increased in November 2017 (0.5% from 0.25%) and again on 2 August 2018 (to 0.75%). Assumptions, given the restricted counterparties list and short investment periods, are for investment returns of around 0.75% in 2019/20. It is possible that rates will increase again in 2019 but the Brexit factor makes forecasting any increase or decrease difficult. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

52. The Council has had significant additional borrowing requirements in recent years and continues to have an ambitious Capital programme for 2018/19 and beyond. The £50m increase in Capital expenditure agreed in 2017/18 increases the annual borrowing costs substantially as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision). The costs appearing in the MTFS are estimates and will need to be refined in line with the Capital programme and timing thereof.

Inflation

53. This is a significant issue with inflation in July 2018 at 3.2 % (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 2.5%.

54. The Council allowed 2% for inflation in 2018/19, and 2% for the years beyond in its budget projections, but only increased budgets where contracts with inflation clauses were present.

55. Inflation, according to the Bank of England May 2018 inflation (CPI) report is expected to continue to decrease and be at around 2.1% by mid 2019 and reach the 2% target

at the end of the next two years (mid 2020). This is based on the assumption of further increases in the bank base rate to 1.2% by early 2021. Based upon these projections, general inflation is being estimated at 2.5% for 2018/19 (revised budget), 2% in 2019/20, and 2% beyond for the purposes of this strategy, with only contracts with inflation indices being allowed for i.e. a freeze again for all other service expenditure areas. Any increases above this level would need to be catered for by identifying offsetting savings from service budgets within the year.

Public Sector Pay Settlement

56. For projection purposes only, the figures in the strategy assume a 2% increase for 2018/19 and 2% beyond. In addition there are contractual increments (equivalent of around ½% p.a.).

57. The salaries budget together with national insurance and pension costs amounts to some £11.7m in 2018/19. The estimated costs will increase by some £240,000 in 2019/20.

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 and thus effectively decreases in line with the annual reductions in grant funding. The Council determined that the Council Tax Support Scheme would remain the same for 2015/16, 2016/17, 2017/18 and 2018/19.

59. The other East Sussex Councils amended their schemes for 2016/17, the major change being that all households of working age made a minimum 20% payment. Options are again being explored by this Council for 2019/20 and a report will be prepared for Cabinet and shortly thereafter by full Council for determination. A decision has to be made before the 31 January on whether to amend the scheme for 2019/20. If no amendments are made to the scheme the projections are that the cost of the scheme would increase from some £10.6m to some £11.1m. In practical terms the decision needs to be taken earlier in order that the Council tax base can be calculated. For the purposes of this strategy it is assumed that relatively small amendments to the scheme would take place in order that the costs do not increase further.

60. In terms of Universal Credit the programme was rolled out fully in Hastings in December 2016. The impact of this has been a marked reduction in benefit claims, a very large increase in the change of circumstances notifications, and a reduction in the Council Tax and Housing Benefit Administration grant receivable in the years ahead (£420,606 receivable in 2018/19) remains an uncertainty.

61. For forecasting purposes a near 10% p.a. reduction has been assumed in the Benefit Administration Grant for 2019/20, 2020/21, 2021/22 and 2022/23 resulting in a grant of £285,000 being receivable by 2022/23 (a £136,000 reduction over 4 years). The government have previously stated that TUPE will not apply as Universal Credit rolls out, but that they may meet the redundancy costs should these arise – providing the Council can prove it has taken all possible steps to avoid such costs.

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.

63. The Council has committed to invest in industrial units – building on freehold land already in its ownership. The Council will look to build these out for a commercial return subject to business cases and contract terms making the schemes viable. Where these are not viable it will seek out grant funding/contributions to close the viability gap.

64. Besides the purchase of retail parks, the Council is investing in York Buildings (6 flats above Millets/Blacks), and is making a Capital contribution in respect of Priory Meadow shopping centre works (in line with the percentage ownership of the Council).

65. The Council’s Renewals and Repairs Fund is reviewed on a regular basis in order to ensure sufficient resources are available to fund necessary works. Planned maintenance is normally cheaper in the long term than reactive maintenance. Additional substantial calls (£500,000 over three years from 2017/18) are being made to fund works on the cliffs. Further smaller sums on an annual basis will be required for the years beyond.

66. There are also substantial calls being made on the Council’s resources to fund replacement equipment on playgrounds and maintain sports grounds, pitches and other facilities. The Council included additional funding in its Capital programme agreed as part of the 2018/19 budget.

Capital Receipts

67. The Council’s land disposal programme for this financial year was budgeted to produce capital receipts amounting to £4,965,000 in 2018/19, and £50,000 in 2019/20 as well as for 2020/21.These sums are not expected to be received in 2018/19 - the programme is being reviewed as part of the budget. Any new capital expenditure proposals would be costed on the basis that they would have to be funded by borrowing.

68. Capital receipts will continue to be received in the period of the strategy, but given the income generation proposals and the potential for the Council to develop sites itself or in conjunction with a partner the timing of any disposal is expected to be further into the future. The presumption is now that the Council will only dispose of sites after considering the income generation potential.

69. However, it remains imperative that the Council maximises its capital receipts. Failure to do so may necessitate curtailment of the already very limited capital programme given the costs that are faced if the Council has to borrow.

Priority Income and Efficiency Reviews (PIER) Process

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

    The objectives of the process are as follows:-

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

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

72. The scale of the budget savings required to balance the budget on a sustainable basis for 2019/20 and beyond is large. The time between the identification and the achievement of savings, as well as income generation, can be significant and the Council will need to be prepared to continue to use a proportion of its reserves to balance the budget and 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 2016 with revised contribution rates becoming payable from April 2017.

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

    2018/2019 -17.3% +0.75% + lump sum of £540,000

75. The future rate for 2019/2020 is : 17.3% +0.75% + lump sum of £594,000

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

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. 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.

79. A transformation team continues to pull together the customer first programme, process and service reviews along with IT solutions to make long term efficiencies and improvements to the customer experience.

80. The transformation programme is seen as key to making further long term savings and to preserve as many services to the community as possible – albeit delivered in a different way.

Grants

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

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

    (i) Climate Active Neighbourhoods (CAN) (£870,000 over 3 years),
    (ii) Sustainable Housing Inclusive Neighbourhoods (SHINE) (£1.5m over 4 years),
    (iii)Community Led Local Development (CLLD) (£3.3m),
    (iv) Coastal Communities Fund 4 (Destination White Rock) – continuing the economic revival. Total project value (grant and match: £1,081,270)

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

84. Of significance is the monies paid to the Council from the Clinical Commissioning Group (CCG) for various joint initiatives which are included in the Council's budget (some £1.7m in total over the next 3 years). It should be noted that this inflates the Council's net expenditure figures (the funding is included in transfers from reserves).

New Homes Bonus

85. This grant regime commenced in April 2011. This is a grant that rewards the building of new houses and for bringing long term empty properties back into use. The sum receivable in 2018/19 amounting to £649,559 (down from £1,008,963 in 2017/18).

86. The government announced in the November 2015 Autumn Statement that it would be consulting on changes to the New Homes Bonus - the money saved going to Social Care. The outcome as announced on the 15 December 2016 has been to reduce the period that it is payable for - from 6 years to 4 years with a transition year for 2017/18 whereby 5 years is payable. The government also decided to introduce a minimum growth baseline of 0.4% below which the bonus will not be paid; this they state reflects a percentage of housing that would have been built anyway. The payment of a small amount to reflect the increase in affordable properties does not appear to be affected by the threshold decision.

87. The Council Tax Base return (CTB 1 in October 2018) will identify the number of new properties completed and the number of long term empty properties brought back into use (net). From this the level of bonus for 2019/20 can be calculated.

88. The table below shows the estimated New Homes Bonus receivable by the Council in 2019/20 and estimates for future years – based on no further changes to the grant.

Table: New Homes Bonus

Year	2017/18	2018/19	2019/20 (Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)
	£	£	£	£	£	£
Year 1						
Year 2						
Year 3	119,097					
Year 4	382,670					
Year 5	119,542	119,542				
Year 6	382,055	382,055	382,055			
Year 7	5,600	5,600	5,600	5,600		
Year 8		142,362	142,362	142,362	142,362	
Year 9			10,000	10,000	10,000	10,000
Year 10				100,000	100,000	100,000
Year 11					100,000	100,000
Year 12						100,000
Total	1,008,964	649,559	540,017	257,962	352,362	310,000

89. The reduction between 2018/19 and 2019/20 is an estimated **funding loss of £109,000** – but is very much dependent upon achieving more new builds than the

threshold. The government have stated in their 2019/20 local government Finance consultation paper that they will be looking to increase the baseline from 0.4% - given the upward trend for house building.

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

91. There remains a real risk that this grant regime could be ended as part of the “Fair Funding review”. The government have now stated that they will explore how to incentivise housing growth most effectively, by for example using the housing delivery test results to reward delivery or incentivise plans that meet or exceed local need.

Indicative Base Budget Position for 2019/20 to 2022/23

92. An Indicative budget forecast for the 4 year period 2019/20 – 2022/23 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 in February 2019.

Summary of Financial Position

93. The table below shows deficits of £2.087m in 2019/20, £2.92m in 2020/21, £3.17m in 2021/22 before the use of reserves. The above figures assume PIER savings and income generation projections, already identified, will be achieved in full or alternative savings to at least the same amount will be achieved.

	2018/19 (£000’s)	**2019/20 (£000’s)**	**2020/21 (£000’s)**	**2021/22 (£000’s)**
Net Expenditure	14,482	15,023	15,179	15,289
Funding	(13,374)	(12,935)	(12,262)	(12,119)
Shortfall	**1,108**	**2,087**	**2,917**	**3,170**
Use of Reserves	(1,108)	(1,567)	0	0
Estimated Shortfall	0	520	2,917	3,170

94. Appendix 2 shows graphical representations of the deficits and use of reserves to fund such deficits.

Council Tax

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

Year	Hastings BC Tax Increase	National Average Increase	Hastings BC Council Tax Band D (£)
2010/11	1.9%	1.8%	235.85
2011/12	0%	0%	235.85
2012/13	0%	0.3%	235.85
2013/14	0%	0.8%	235.85
2014/15	0%	0.9%	235.85
2015/16	1.9%	1.1%	240.33
2016/17	2.1% (£5)	3.1%	245.33
2017/18	2.0% (£5)	4.0%	250.33
2018/19	2.99%	5.1%	257.81

96. In considering any Council Tax increase in 2019/20, 1% on the Council Tax will equate to around £67,000.

97. For 2018/19 the government announced a shire district or borough Council could increase Council Tax by up to 3%, or up to and including £5, whichever is the higher. If higher then it will be required to hold a referendum. The financial consultation at the time of writing states that the government is minded to retain the same thresholds for 2019/20.

98. The MTFS includes the assumption of a 2.99% or £5 increase (whichever is higher) in Council Tax for 2019/20 and 2% for each of the years beyond.

CAPITAL

99. 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.

100. The Council’s capital programme for 2018/19 and the next 2 years, as approved in February 2018, amounted to some £48.8m (£39.7m 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.

101. For the purposes of planning the Council generally 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. When looking at the viability of individual schemes being proposed real rates of interest are used.

102. The capital programme has significantly increased in the last few years, as economic and regeneration opportunities have been taken. In 2017/18 borrowing increased by some £14.5m to £41.013m.

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

Minimum Revenue Provision (MRP)

104. 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.

105. 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.

106. The MRP is set to increase substantially in 2019/20 and beyond as a result of additional borrowing, particularly in respect of economic and regeneration initiatives. The Council's MRP policy is determined by full Council as part of the Treasury Management Strategy in February for the forthcoming year.

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

CFR	2018/19 (Adj. Est)	2019/20 (Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)
	£	£	£	£	£
CFR-Opening	39,493,000	65,507,752	71,103,098	76,564,851	74,880,875
Less MRP	(985,247)	(1,404,654)	(1,538,247	(1,683,976)	(1,700,000)
Plus, New Borrowing	27,000,000	7,000,000	7,000,000	0	0
CFR Closing	65,507,752	71,103,098	76,564,851	74,880,875	73,180,354

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

The figures will be refined for the 2019/20 budget, based on the proposed Capital programme and timing thereof.

Reserves

108. 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.

109. It should be noted that capital receipts can generally only be used for capital purposes. There is a new flexibility which allows new receipts to be used to meet effectively invest to save initiatives. Capital receipts could also be used to meet the Minimum Revenue Provision but this is only a short term expedient. Reserves and movements thereof will be reviewed as part of the budget process.

110. For the purposes of the strategy estimates have been made of expenditure funded from reserves in order to arrive at reserve balances as the end of the current financial year i.e. 31 March 2019. In total reserves are estimated to decline by nearly £3m in the year to £15.2m.

111. The £15.2m figure is broken down between General Reserves (£7,498,000) and Earmarked Reserves (£7,691,000).

Namely:-

General Reserves	**Estimated Balance at 31.3.2019 £‘000s**
Revenue Reserves	7,418
Capital Reserve	80
Total	**7,498**

Earmarked Reserves	Estimated Balance at 31.3.2019 £'000s
Renewals and Repairs Reserve	1,508
Insurance & Risk Management Reserve	310
IT Reserve	118
S106 Reserve	472
Government Grant Reserve	502
VAT Reserve (Castle Scheme)	247
Revenue Hardship Fund	80
Monuments in Perpetuity	46
Ore Valley	250
Invest to Save and Efficiency Reserve	62
Resilience and Stability Reserve	600
Transition Reserve	916
Redundancy Reserve	423
Community Safety Reserve	250
Economic Development Reserve	401
Disabled Facilities Reserve	1,419
Safer Hastings Partnership Reserve	42
Other reserves e.g. On street parking	45
Total	**£7,691**

112. 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.

113. The protection of key services remains of crucial importance to the Council and the Transition Reserve, Economic Development Reserve and Community Safety Reserve has provided the Council with the opportunity to protect some key services and activities into the future e.g. the ability to continue regeneration and attract grant funding to the town remains a key priority. The strategy continues to identify the use of these reserves in 2019/20 and beyond.

114. 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 2021/22 and potentially beyond, and the need to cope with unexpected events or claims or unexpected income losses, the minimum level of general reserves (un-earmarked) was set at £6m for 2018/19. The claim from Manolete partners in respect of the pier and restricted access, along with the potential NHS claim, are examples of the need to retain adequate reserves.

115. At 31 March 2019 General and Capital Reserves will amount to an estimated £7.9m, of which some is already committed e.g. empty homes strategy. The balance and use of the reserves will be considered further as part of the budget process and be determined in light of the 2019/20 budget, priorities for income

generation and the risks that the Council faces.

Budget 2019/20 and beyond

116. To help ensure that the Council can continue to deliver key services over the next four years and continue the process of transformation to a lower spending Council, the use of specific reserves established e.g. Transition Reserve will occur.

117. To achieve a balanced budget in 2019/20 (without using reserves) further savings of £2,087,000 would need to be identified.

118. To achieve a balanced budget in 2020/21 savings of £2,917,000 need to be identified. The Transition Reserve, the Economic Development Reserve and the Community Safety Reserve will have been fully exhausted.

    This also assumes that the Council receives the same or similar funding levels under the Fair Funding Review and the retention of 75% of business rate growth.

119. To achieve a balanced budget in 2021/22 savings of £3,170,000 need to be identified, assuming no further funding reductions, following the Fair Funding Review, other than Housing Benefit Administration grant (albeit New Homes Bonus may well have been replaced too).

120. These figures do need to be treated with some caution (they may be too optimistic) given that there are funding decisions awaited from the government and greater uncertainties than ever in the budgeting process. The volatility in income streams has increased in respect of the business rate retention scheme and will increase yet further with the 75% business rate retention scheme.

121. 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 £2.675m of reserves has been included within the strategy for the period 2018/19 to 2019/20. This would still leave the Council with a deficit for 2019/20 at present. The Council would still retain sufficient reserves to meet significant and unexpected expenditure items. The Council needs to find cumulative savings, amounting to £12.6m to achieve balanced budgets without using the reserves over this and the next 4 years.

122. The key determinants of the gap for future years include, the EU exit vote (Brexit) and impact on income streams and funding, funding settlement in 2020/21, the New Homes Bonus, Benefit Administration grant, Business rates income and appeals, NHS rates claim, inflation and interest rates, the level of savings that can be identified and actually achieved, and the level of additional income that can be generated.

123. In view of the reduced resources available in 2019/20 and beyond the Council must continue to review the level of service it can provide and transform the way it delivers those services. Priority, at least in the short to medium term, needs to be

directed towards income generation and balancing the budget.

Options for Reducing the Deficit

124. There are a number of actions that can be taken to reduce the deficit, but based on the likelihood of no additional funding overall from the Fair funding review, 75% business rate retention, and changes to the New Homes bonus, service reductions seem an inevitable consequence at the time of writing.

125. Some of the actions that can be considered beforehand include:

a. 2018/19 Budget Review – the 2017/18 budget out-turn identified under and overspends in some areas. These will be reviewed as part of the 2019/20 budget setting process with the aim of identifying ongoing savings

b. Contingency Budget - Reducing the contingency budget from £400,000 p.a. to £300,000 p.a. (£100,000 of this sum specifically retained for urgent or more expensive health and safety or renewal and repair issues). Services would have to identify in year savings if there was a more pressing / unforeseen expenditure item e.g. court fines/claims.

c. Property Fund (CCLA) – Consider increasing the level of the Council's investments in a property fund as part of the 2019/20 Treasury Management Strategy. A further £2m investment could provide an additional £70,000 of interest per annum – albeit at a greater risk than a straight forward cash deposit.

d. Property Acquisition – The Council to self-fund a number of the commercial property acquisitions rather than borrow the funding from the Public Works Loan Board. This would take advantage of the Council's positive balance sheet in respect of cash surpluses held on a temporary basis. Funding a scheme or schemes of say £6m on this basis could provide/save an additional £240,000 p.a. There are risks of doing so and these would need to be carefully considered as part of the Treasury Management Strategy and the new Capital Strategy (yet to be written and determined by full Council)

e. Asset Disposals – The Council has been looking at the potential of developing its own property sites (potentially as a joint venture) and to this end is seeking external advice at the benefits and pitfalls (Harrow Lane, Mayfield E, Bexhill Road sites). As a minimum the Council could dispose of the sites quickly and invest the sums received. Capital receipts of £5m invested in the CCLA Property Fund could attract interest of 4.5% i.e. some £225,000 p.a. or £275,000 p.a. if invested directly in a property returning 5.5% p.a. (net).

f. West Marina Site – The site has the potential to generate income for the Council. Estimates of up to £300,000 p.a. have been forecast. The income would in all likelihood not be forthcoming for a further 3 to 4 years following Council approval of a scheme and taking into account development time and any rent free periods.

g. Bohemia Site – This site has significant potential, but many unknowns at present. The potential for a new leisure centre which may or may not generate a surplus should be investigated.

h. Income Generation (Energy) – the income strategy is under review and financial projections particularly from wind turbine initiatives was far too optimistic given planning restrictions. It may be that wind energy may provide the Council with significant income in some future years but there is insufficient certainty at present to include any figures in the Medium Term Financial Strategy.

i. Economic Development/Regeneration – Further economic development/ regeneration opportunities will be forthcoming in the years ahead and the Council will need to consider to what level it is prepared to increase borrowing to fund such developments and at what risk to the Council's ability to continue to provide services should such schemes go badly wrong.

j. Transforming Services/ Sharing Services/Resources – Whilst there are currently no plans for local government reorganisation in East Sussex, the continuing need for savings may necessitate further review of existing arrangements between authorities. Likewise the transformation programme within the Council needs to be progressed as quickly as practically possible given the range of priorities.

k. Business Rate pilot – Consideration of an application to become a pilot site for 2019/20 in conjunction with East Sussex County Council, Fire Authority and East Sussex borough and district councils. This would see the Councils retain 75% of business rate growth as opposed to 50% currently, the ending of the receipt of any Revenue Support grant and a resetting of the business rate baseline to compensate. The net impact could be an additional £100,000 to the Council albeit there are risks of doing so.

l. Council Tax – the legislation is being amended to enable Council's to charge higher amounts for long term empty properties. This could see an additional 150% of the current levels being charged (300% in total) for properties empty longer than 5 years and could potentially be worth up to £95,000 p.a. of which Hastings BC would retain just under 14% (£13,300).

126. If actions (b) to (e) were agreed by full Council then additional revenue/ savings, estimated at some £685,000 p.a. could be achieved from 2019/20 onwards. The annual deficits would be reduced to :

2019/20 - £1,402,000
2020/21 - £2,232,000
2021/22 - £2,485,000
2022/23 - £2,602,000

127. In terms of “one off” receipts the Council is awaiting compensation for land used in the development of the link road (Capital receipt expected in 2018/19). The Council also has a VAT claim outstanding (submitted on a national basis) in respect of postal charges which if successful could generate a five or potentially a six figure sum. The long outstanding business rate appeals could be settled during 2019/20 and if settled for less than provided for could result in one off income for the Council.

128. Against these factors are volatility in the economy on interest rates/ inflation flowing from Brexit uncertainty, the Council Tax reduction scheme (volatility thereof), plus the NHS claim for charitable rate relief. Risk management is expanded on below.

Risk Management

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

130. Given the long term uncertainty in funding streams and potentially taking on more risk when making investment decisions the Council needs to take every opportunity to strengthen reserves e.g. to cover void periods for example if investing in housing or commercial property, whilst also using them to continue to transform itself to a lower spending Council.

131. The Council needs to continue 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, the level of service in contract specifications, identify income generation opportunities and ensure that potential savings are monitored and achieved.

132. 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, joint procurement and reduced staffing levels also poses additional risks.

133. 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 particularly enhancement

v. Joint working/ shared services.

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

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

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

viii. Restructuring Costs

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

ix. Treasury Management

Investment security and level of returns, plus level of debt and repayment thereof. The exposure to interest rate movements and inflation. Given the level of borrowing, and the use of different investment products, more time is required to manage this area of activity.

x. The Economy

The economic and financial instability in the world continues to be major risk especially so following the Brexit referendum.

xi. Income generation and risks arising from new initiatives e.g. housing company, social lettings agency, licensing schemes, new factory units. These would include added exposure to void periods and business rate and debt liabilities for example. As a result wherever possible reserves are enhanced and if not possible then at least preserved. The ability to add to them once depleted would be possible but at the cost of severe service reductions.

134. **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

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

Consultation

127. The 2018/19 budget proposals will be consulted upon from the middle of January 2019 and will be considered by Cabinet on the 11 February 2019 and determined by full Council on 20 February 2019.

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APPENDIX 1

Revenue Budget Forward Plan

Appendix 1

Ref	Revenue Budget Forward Plan		2018-19 Budget £000's	2018-19 Revised Budget £000's	2019-20 Budget £000's	2020-21 Projection £000's	2021-22 Projection £000's	2022-23 Projection £000's
1	**Net Service Expenditure**		**12,301**	**12,301**	**12,647**	**13,000**	**13,360**	**13,727**
	Funding Commitments:-							
2	Pension Fund - Employers increase				54	54	54	54
3	Election Costs (bi-annually)				(90)		(90)	0
4	Waste and Street Cleaning Contract			200	1,000	1,000	1,000	1,000
	Savings/Additional Income Identified							
5	Community Partnership Fund				(12)	(20)	(20)	(20)
6	Theatre - Reduced Contribution			(17)	(100)	(200)	(300)	(400)
7	Income Strategy - Commercial, Housing, Energy (Net)			17	(217)	(336)	(336)	(336)
8	Revenues & Benefits & Contact Centre - Document Man System				(80)	(80)	(80)	(80)
9	Fees and Charges				(60)	(120)	(180)	(240)
	Other items/ Adjustments							
10	Contingency Provision		500	500	400	400	400	400
11	Interest (net of Fees) & other Adjustments Excl Inc Gen		1,190	1,190	1,190	1,190	1,190	1,190
12	Minimum Revenue Provision (excl. Inc Gen Adj) Excl Inc Gen		1,116	985	985	985	985	985
13	Contribution to Reserves		1,072	1,072	1,072	1,072	1,072	1,072
14	Net Use of Earmarked Reserves		(1,766)	(1,766)	(1,766)	(1,766)	(1,766)	(1,766)
15	**Net Council Expenditure**		**14,413**	**14,482**	**15,023**	**15,179**	**15,289**	**15,586**
16	Taxbase		25,582	25,582	25,966	26,355	26,751	27,152
17	Council Tax	1.99%	257.81	257.81	265.52	270.83	276.25	281.77
18	**Funding**							
19	From Collection Fund - Council Tax		(6,595)	(6,595)	(6,894)	(7,138)	(7,390)	(7,651)
20	From Collection Fund - Business Rates		(2,757)	(2,757)	(2,757)	(2,757)	(2,757)	(2,757)
21	Revenue Support Grant		(1,542)	(1,542)	(988)	(438)	0	0
22	New Homes Bonus		(649)	(649)	(540)	(258)	(352)	(310)
23	New Homes Bonus return funding		(8)	(8)	(8)	(8)		
24	Council Tax Support Admin Grant		(167)	(167)	(157)	(148)	(139)	(130)
25	Housing Benefit Admin Grant		(421)	(421)	(379)	(341)	(307)	(276)
26	NNDR (Surplus) / Deficit		63	63	104			
27	NNDR Pooling		(58)	(58)	(58)	(58)	(58)	(58)
28	Business Rates Section 31 Grant		(1,114)	(1,114)	(1,114)	(1,117)	(1,117)	(1,117)
29	Council Tax Surplus		(126)	(126)	(145)	0	0	0
30	**Contribution To General Fund**		**(13,374)**	**(13,374)**	**(12,935)**	**(12,262)**	**(12,119)**	**(12,299)**
31	**Funding Shortfall / (Surplus)**		**1,039**	**1,108**	**2,087**	**2,917**	**3,170**	**3,287**
32	**Use of General Reserve**	Tfr to / (from)	0	0				
33	**Use of Transition Reserve**		(839)	(908)	(916)			
34	**Use of Resilience and Stability Reserve**							
35	**Use of Community Safety Reserve**		(100)	(100)	(250)	0	0	
36	**Use of Economic Development Reserve**		(100)	(100)	(401)	0	0	
37	**Net Funding Shortfall / (Surplus)**		**0**	**0**	**520**	**2,917**	**3,170**	**3,287**

Key Assumptions

Line 1 General Inflation has been assumed of 2% for 2019/20 and beyond – but only applied to contracts. Wage inflation: 2% assumed for 2019/20 and beyond plus ½% p.a. representing contractual increments.

Line 2 Pension fund cost increases – an additional £54,000 p.a. in 2019/20 and no increases in the next Pension valuation.

Line 3 Local elections – the costs are next budgeted for in 2020/21 (these occur every two years).

Line 4 Waste and Street Cleaning Costs – Additional in-house and contract costs, plus start up costs in 2018/19 (broad estimate at the time of writing)
Line 5 Reduced grant for 2019/20, and 2020/21
Line 6 Reduced subsidy payable for Theatre commencing February 2019
Line 7 Savings/ income generation (shown net of MRP and Interest costs)
Line 8 Revenues and Benefits – Document Management System.
Line 9 Increased Revenues from assumed fees and charges increases
Line 10 Contingency budget
Lines 11 to 14 - funding adjustments and reprofiling of expenditure against base budget. MRP in respect of income generation not included as Income figures in line 7 above shown net
Line 16 Recalculation of the taxbase. Assumes a 1.5% increase each year, and no downturn in the economy or increases in the amounts paid out in respect of the Council Tax Support scheme.

Line 17 A Council Tax increase of 2.99% for 2019/20 and 2% for future years has been included for the purposes of this Strategy.

Lines 18 to 29 Funding. The Universal Credit rollout is expected to continue at pace through 2019/20 for existing claims as well (for those of working age) and leads to greater uncertainty on the future funding levels of the Housing Benefit Administration Grant. For budget planning purposes a decrease of some 10%p.a.has been assumed for each of the next 3 years.

Line 26 Deficit on the collection fund in respect of business rates due mainly to prior year appeals and reimbursements. This is the Council's share of the overall deficit.

Line 27 Business rates pooling – with other East Sussex authorities including the Fire Authority. This will be continued in 2019/20. The levels of income are projected to continue in 2020/21 and beyond for budget planning purposes although 2020/21 will see a new funding regime (75% rate retention).

Line 29 Surplus on the Collection Fund in respect of Council Tax collection, mainly due to good collection and reductions in Council Tax Support being paid. This is the Council's share.

Line 33 Transition Reserve – The Council will use the Transition Reserve to support the budget in future years. The original £2.2m is fully exhausted by 2019/20

Line 34 Resilience and Stability Reserve – The Council will use the fund to meet some of the detrimental impacts of the business rate appeals if necessary – not included in this projection.

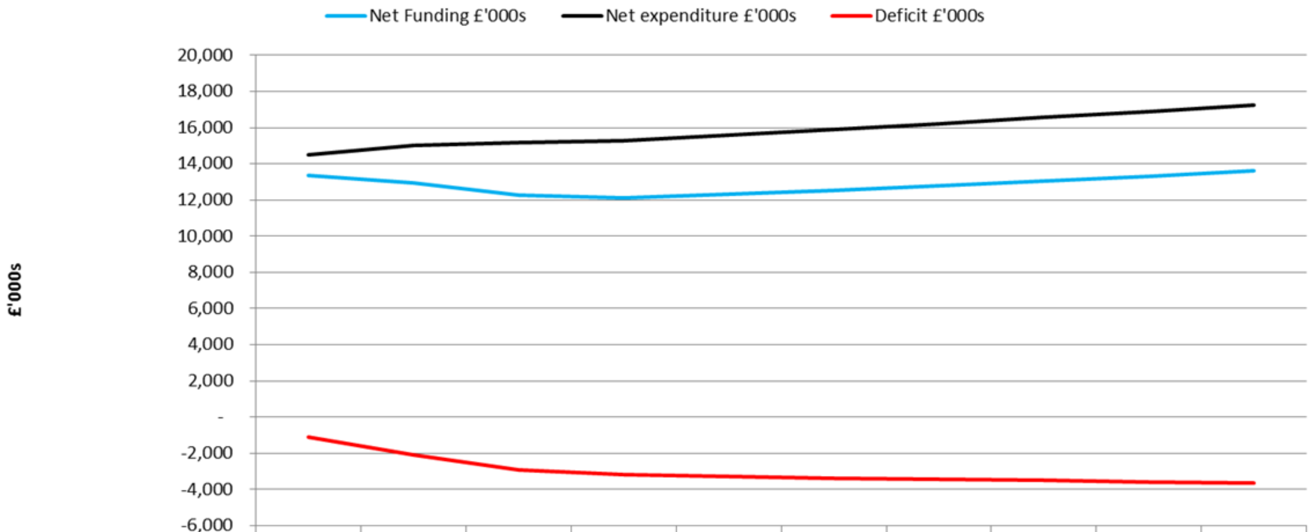
Line 35 Community Safety Reserve – established as part of the 2011/12 budget from Transition Grant (£350,000). The use of this reserve in 2019/20 is proposed in order to continue provision of services and activities in this area.

Line 36 Economic Development Reserve – established as part of the 2011/12 budget making process from Transition Grant (£400,000). The use of this reserve in 2019/20 is proposed in order to continue the provision of services and activities in this area.

Line 37 Funding Gap: the predicted deficits in 2019/20, 2020/21, 2021/22, 2022/23

APPENDIX 2

HBC - Deficit Projections (10 years)



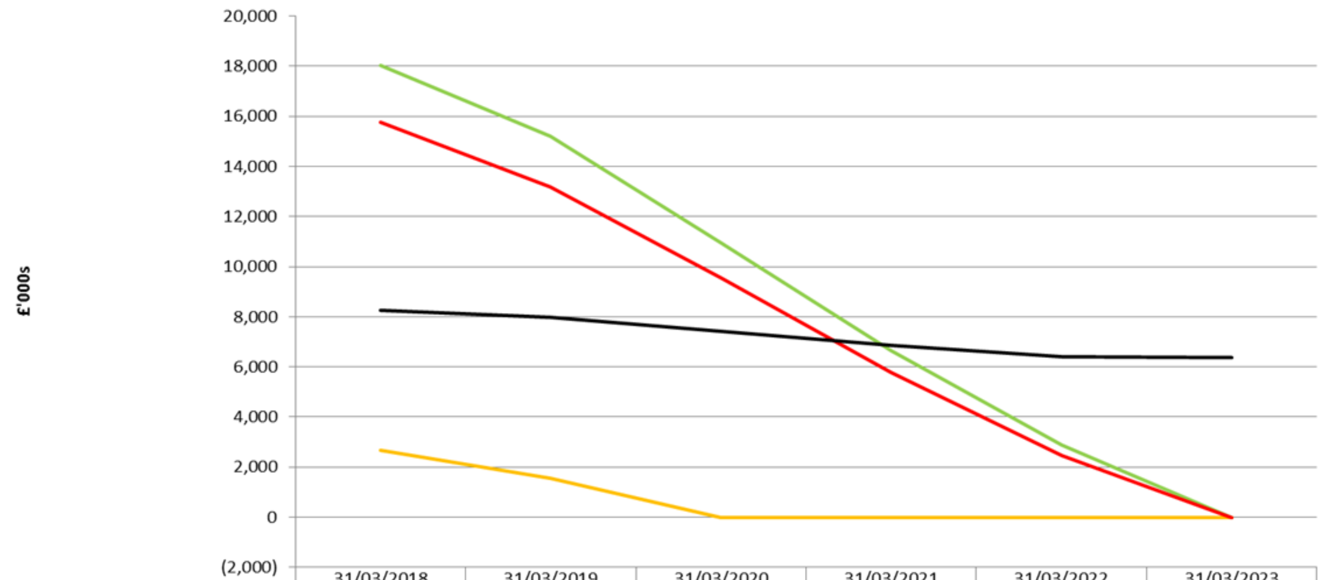
	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Net Funding £'000s	13,374	12,935	12,262	12,119	12,299	12,534	12,781	13,041	13,314	13,600
Net expenditure £'000s	14,482	15,023	15,179	15,289	15,586	15,900	16,223	16,552	16,890	17,235
Deficit £'000s	(1,108)	(2,087)	(2,917)	(3,170)	(3,287)	(3,367)	(3,441)	(3,511)	(3,575)	(3,635)

Year

Projected Deficits @6 August 2018

	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28
Deficit (£'000s)	1,108	2,087	2,917	3,170	3,287	3,367	3,441	3,511	3,575	3,635
Cumulative deficit (£'000's)	1,108	3,196	6,112	9,282	12,569	15,935	19,377	22,888	26,463	30,098
Transition Reserves (£'000s)	2,675	1,567	0	0	0	0	0	0	0	0

HBC - Projected Reserve Balances as at August 2018



	31/03/2018	31/03/2019	31/03/2020	31/03/2021	31/03/2022	31/03/2023
All Reserves £'000s	18,042	15,189	10,963	6,664	2,874	0
Transition Reserves £'000s	2,675	1,567	0	0	0	0
HBC Usable Reserves £'000s	15,779	13,197	9,544	5,787	2,464	0
Minimum level £'000s	8,263	7,992	7,419	6,877	6,410	6,374