Report To:	**Cabinet**
Date of Meeting:	**10 February 2020**
Report Title:	Revenue Budgets 2019/20 (Revised) and 2020/21, plus Capital Programme 2020/21 to 2022/23
Report By:	**Peter Grace** **Chief Finance Officer**
Key Decision:	**Yes**
Classification:	**Open**

Purpose of Report

1. This report presents the revised revenue budget for 2019/20 and a budget for 2020/21. The revised budget for 2019/20 takes account of the known variations to expenditure and income streams that have occurred since setting the budget in February 2019.

2. This report will be updated for Cabinet and full Council, potentially verbally, following the receipt of the final government grant settlement - generally received in early February.

3. In setting the budget for 2020/21, recognition has to be taken of the potential ongoing reductions in external funding and the uncertainties that exist for the years ahead in the absence of the Spending Review last year.

4. The report identifies that a balanced budget can be achieved in 2020/21 although this involves using £1.182m of reserves. The forecast deficit for 2021/22 is some £798,000, in 2022/23 it is estimated at £698,000, and in 2023/24 it is estimated at £525,000.

5. The alignment of the Council's available resources to its priorities requires further and immediate attention to achieve a sustainable budget in the years ahead. Financial rules and operating procedures need to be strengthened in some areas and strictly followed to ensure that the full Council is in full control of the reducing financial resources.

6. The Cabinet meeting on the 10 February is a key part of the budget setting process. The full Council meeting on the 19 February 2020 is responsible for setting a balanced budget and determining the Council Tax. Whilst significant savings of £1,784,000 have been identified for 2020/21, involving the loss of 25.7 full time equivalent jobs, there are unavoidable increases in costs that result in further use of the Council’s fast diminishing reserves – £1,182,000 of reserves being required. If the recommendations in the report are approved by Council there will be an increase in the Borough’s part of the Council Tax in 2020/21 of 1.99%.

7. Please note that the final grant settlement figures from government have been received but have not yet been through parliament. Likewise not all the other grant figures will be received before determining the budget. As such some figures will remain as estimates and adjustments will be made to the figures detailed in this report e.g. figures for Disabled Facility Grants are not expected until well into 2020/21. Precept figures have been updated following receipt of the final figures East Sussex County Council.

Recommendation(s)

Cabinet recommends that full Council:-

(i) Approve the revised revenue budget for 2019/20 (Appendix A).

(ii) Approve the draft 2020/21 revenue budget (Appendix A)

(iii) Approve a 1.99% increase in the Borough Council's part of the Council Tax.

(iv) Agree that the absolute minimum level of reserves that shall be retained be £6m (plus General Fund Balance).

(v) Approve the Capital Programme 2019/20 (revised) to 2022/23 (Appendix P).

(vi) Approve the proposed expenditure from the Renewal and Repairs Reserve, and Information Technology Reserve (Appendices J and I respectively) and those items from other reserves shown in Appendix H that can proceed without further reference to Cabinet or Council.

(vii) Approve that the use of the monies in the budget and Reserves for "Invest to Save" schemes be determined by the Chief Finance Officer in consultation with the Leader of the Council.

(viii) Approve the transfer of £500,000 from the General Reserve to the Redundancy Reserve to meet future costs.

(ix) Agree that authority be granted to enter into a Funding agreement/ Memorandum of Understanding with the government (BEIS) on Minimum Energy Efficiency enforcement subject to no adverse grant terms, and that the necessary authority is granted for expenditure up to the level of funding received (£48,600 for 2019/20).

(x) Approve the revised Land and Property Disposal Programme (Appendix L), and agree that disposals can be brought forward if market conditions make it sensible to do so.

(xi) Agree that where a Capital scheme involves a net increase in overall costs to the Council, or where any guarantee is to be provided which does, or could, incur costs for the Council, such decisions are now made by full Council.

(xii) Agree that, with immediate effect no Council properties or land be disposed of, either by sale or long leasehold, at less than market value without further express approval by Full Council.

(xiii) Agree that schemes marked with an asterisk in the Capital Programme can proceed without further reference to Cabinet or Council.

(xiv) Agree that work on Priority Income and Efficiency Reviews (PIER) through the Strategic Oversight and Planning Board should continue, and where possible identify a sustainable budget for a period in excess of one year. A mid-year review, for members and officers, to be undertaken in the light of the continuing severe government grant reductions.

(xv) Approve the detailed recommendations in Appendix M, which relate to the setting of Council Tax in accordance with Sections 31 to 36 of the Local Government Act 1992 (to be updated for full Council).

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

(xvii) Approve that the determination of eligibility and award in respect of the Business Rate Retail Relief Scheme is delegated to the Chief Finance Officer for the next financial year and any extension period thereafter.

(xviii) Full Council adopt the existing Council Tax Support scheme subject to amendments to allowances in line with national changes. Determination of the allowances to be delegated to the Chief Finance Officer in line with prior year practice.

Reasons for Recommendations

1. The Council must by law set a balanced budget. It will have used most of its Transition Reserves to fund 2019/20 expenditure and hence must identify significant savings for 2020/21 in order to achieve a balanced budget. The redundancy provision and Redundancy Reserve will be fully exhausted.

2. Despite identifying PIER savings of £1,784,000 (£1,420,000 during this year's PIER process) these are insufficient to balance the budget in 2020/21 without the use of General and other reserves. Further service cuts need to be made throughout the year to achieve an ongoing sustainable budget and further redundancy costs can be expected.

3. Under resourcing looks set to continue in 2020/21 and beyond and this impacts heavily upon the Council's ability to provide services or grants across all areas of existing activity in future years. A major overhaul of the funding mechanism along with the Government's Spending Review, postponed until 2020/21 continues to provide considerable uncertainty on funding for 2021/22 and beyond.

4. The Council needs to be in a position to match its available resources to its priorities across the medium term and to maintain sufficient reserves and capacity to deal with potentially large and unexpected events in addition to fluctuations in income and expenditure levels. In the light of increased in–year spend on temporary accommodation (estimated at some £380,000 above budget) this requires a much greater degree of service cuts elsewhere and spend within housing areas must be reprioritised. It remains a possibility that additional funding may be received to mitigate these new burden costs, but details may not be known before the budget.

5. The Council is now exposed to a much greater degree of volatility in terms of its income from Non Domestic Rates and expenditure in terms of Council Tax Support claims – the cost falling directly on the Council and the preceptors. The potential downside risks of

Brexit and the increased reliance on income streams provide greater volatility to the Council's funding.

6. The Council has had enormous budget cuts every year since 2010, but work will need to continue to identify and make savings in order to continue to produce balanced budgets for future years – with consequential impacts on service provision.

Introduction

1. The Council continues to find itself in a very challenging financial period that is anticipated to extend beyond 2023/24. 2021/22 sees wholesale changes in the way in which local authorities are funded. There appears to be no easing of austerity for councils like ours.

2. The Council when setting the budget in February 2019 forecast that there would be a deficit in 2019/20 of some £1,747,000, and £2,436,000 in 2020/21. A balanced budget for 2019/20 being achieved by using significant amounts of the Council's reserves.

3. Whilst the Council has identified savings of some £1,784,000 for 2020/21, it is also incurring additional expenditure and reductions in some income streams. For example the full year effect of last year's increase in waste and street cleaning costs, along with the loss of recycling credits – similar additional costs being incurred by neighbouring Councils. Temporary accommodation costs have continued to increase dramatically throughout the year and are estimated to be approaching some £380,000 above the existing 2019/20 budget once borrowing costs for purchasing new temporary accommodation are included. The Council is investing some £5.766m in purchasing temporary accommodation within the town to mitigate the impact of the higher private sector costs currently being incurred. Some redirection of Flexible Homeless Support grant is occurring to offset these costs.

4. The deficit now forecast for **2019/20** is some £1,798,000. This figure includes redundancy costs which will be funded from revenue budgets, the redundancy reserve and also the General Reserve (as the Redundancy Reserve is insufficient). The direct costs and Pension Strain costs are estimated at £1.046million – depending upon which staff leave.

5. For **2020/21** following extensive service transformation work, service reviews and reductions, initiatives to generate additional income, as well as some budget growth, the deficit is estimated at some £1,182,000 if all savings identified and growth areas in the report are accepted. The level of risk within the budget and uncertainty within the forecasts has increased – particularly the uncertainties surrounding Brexit, business rate income, wage inflation (settlement unknown for 2020/21), and significantly higher demands on services.

6. During the year the Council commissioned the Local Government Association to undertaken a Decision Making Accountability (DMA) review, to review where and how decisions are made and the level of management required. The result being options for the Council to consider on management layers and accountability, and ideas for groupings of services to provide greater capacity. The unplanned general election has meant that time was not available before this draft budget had to be published to consider the findings and come to conclusions about the future structure of the council. However a number of senior management posts have been identified as part of the budget proposals, including two from the senior team. It is expected that there may be further reductions identified as a formal senior management restructure is undertaken over the next few months.

7. The Fair Funding Review (the level and distribution of the monies between Councils) was postponed until 2020/21. Uncertainty remains about the promised introduction of the 75% retention of business rates (now postponed to April 2021).The ending of the New Homes

Bonus Scheme and what will replace it, if anything, provides more uncertainty. What does appear to be clearer is that of the funding available those providing adult and children's care services will receive greater priority – along with the police and teaching professions.

8. **The Council now finds itself in the most challenging financial period – and unless it balances its budget it will be unable to afford to undertake itself, or underwrite, the major redevelopment initiatives that remain so important for the town. Going forward the council can only sustain new initiatives where it can resource these in financial and human terms. Priority should be given to redevelopment initiatives which:-**

   - **Produce income or are self sustaining**
   - **Can attract substantial external funding**
   - **Deliver key desired outputs on climate change, housing and economic growth**
   - **Address legal obligations**
   - **Can be demonstrated as viable and deliverable**

   This makes it critical that future potential programmes like the Town Deal are effectively co-ordinated with the use of land and resources by the council and its partners. The Council will need to continue to fund staff and other costs against programmes like this in order to maintain current staffing levels.

9. **The Council must now seriously consider postponing all but the most important new initiatives and seek to preserve any remaining reserves until there is some clarity on funding and the ability to achieve a sustainable budget. The Council to concentrate on reviewing existing budgets and service provision, delivering those projects that produce income or have significant health and safety or climate change implications, and deliver those regeneration and economic development schemes that have significant funding attached.**

10. **Unless the budget is balanced the further use of reserves will take the Council to the point where it reaches the absolute minimum level that it should hold and leave nothing to fund the upfront costs of schemes and expenditure that cannot be capitalised e.g. cliff works, feasibility studies.**

11. **In terms of forward planning, even if the Council identifies sufficient savings to achieve a sustainable budget on current assumptions, until there is a degree of clarity and certainty for at least a significant part of the Council's funding stream in the years ahead the Council will need to prioritise its expenditure on the assumption of continued reductions in funding. It is understood that the MHCLG have been looking at a safety net where councils experience year on year reductions of greater than 5%p.a. This Council needs to prepare for such a scenario.**

12. The Council's external auditors have in the past commended the Council on its approach to financial management and its approach to maintaining and enhancing reserves whenever possible. This approach has helped the Council in its transition to date. However, the Council must now further prioritise its limited resources, at least for a while, on areas that generate or will generate additional income or where costs can be reduced or activities cut or postponed. Regrettably this involves making staff reductions along with others being redirected to other priorities.

13. Whilst funding and increased demand is of overriding concern, there are many positives in terms of what the Council can and does achieve. The council's existing programmes would be regarded as ambitious in many places. Currently a new hotel in Cornwallis Street, Harold Place development, units at Churchfields Industrial Estate, the town's Lower Tier and West Marina development are potentially valuable regeneration schemes. However given the town's economic and social position the council needs to stimulate economic growth and the provision of new housing. Using the revision of the Borough Plan and the opportunity the Towns Fund affords (£25m for Hastings – subject to successful application) it is critical to establish an attractive framework to encourage investment and ensure the Council's resources are effectively focused in partnership with others.

14. The council and its partners are awaiting a review of the Hastings and Rother regeneration programmes before identifying new priorities. It is possible this will expose the need for increased revenue funding. This will pose a key challenge and the Council will need to argue with government that revenue investment needs to accompany capital investment if regeneration is to generate good rates of economic and social return.

15. The importance of retaining reserves is becoming ever more apparent. The uncertainties surrounding future funding, the difficulties in achieving savings and the ability to meet unexpected increases in demand. The massive increase in Temporary Accommodation costs that the council is now experiencing has been possible largely because the Council has retained sufficient reserves.

16. There have been a few amendments to the budget figures from that published at the consultation stage as a result of government notifications being received. These include additional funding for Housing Benefit Administration grant (An £8,743 increase) rather than a projected decrease. New burdens funding in respect of universal Credit and managing Discretionary Housing Payments of some £55,000 in 2020/21 will again be received. A number of amendments to staffing have been made, and additional funding retained for CCTV and hate crime coordination – please see revised Appendix K. The overall impact of the amendments made within the budget is to reduce the projected deficit in 2019/20 by £318,000 (once amendments to redundancy costs are included) and by £66,000 in 2020/21.

Strategic Priorities

17. The Council's strategic priorities have been reviewed for 2020/21 in the light of the continuing challenges that the Council and the community face particularly in the light of the reduced funding levels and the climate change emergency. A revised Corporate Plan is due to be considered by Budget Cabinet and Budget Council along with this budget report.

18. The priorities are:

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

19. The Council's corporate plan continues to remain very ambitious when set against the background of reductions in grants and the continuing demand pressures – particularly around homelessness and temporary accommodation requirements.

20. The Council has a very good track record of achieving its objectives and improving performance, and will look to further enhance income streams too. It can continue to be well placed to deliver the programme in 2020/21 but must substantially refine its priorities. Significantly reduced resources will inevitably impact on service delivery in the years ahead.

Financial Planning - Medium Term Financial Strategy

21. The Medium Term Financial Strategy, approved in September 2019, provided indicative budget forecasts for the 5 year period 2019/20 to 2023/24. These have been updated within the budget papers attached.

22. Given the need to plan for future years, the Medium Term Financial Strategy, identified key principles to be followed when compiling the budget as well as identifying the financial risks and opportunities more closely. The Financial Strategy is robust in that it integrates the financial and policy planning procedures of the Council.

23. 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 again in 2019/20.

(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, if available, finance Invest to Save schemes to help modernise and improve services and generate efficiencies in the medium term.

(vii) Ensure sufficient reserves are maintained

Some reserves were built up over a number of years and specifically identified to ease the transition to a lower spending Council and to meet key corporate priorities. These are now all but exhausted. 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. The useable earmarked reserves are reducing rapidly and this will impact significantly on Council priorities in future years e.g. funding of Renewal and Repair programmes.

(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 on the 2018/19 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.

24. The level of risk that the Council is facing from fluctuations in income streams has increased significantly particularly where there is reliance on commercial property income. This is recognised by the government and Chartered Institute of Public Finance Accountants (CIPFA) resulting in new codes of practice and government regulations. These have been introduced to help ensure that councils do not over extend themselves in this challenging environment. Key new prudential indicators are included in the Treasury Management Strategy, which include, for example, limitations on the use of reserves to temporarily fund capital expenditure, limitations on the gearing of the local authority i.e. total debt compared to total assets and limitations on the level of reserves that are not held in cash or cash equivalents. Additional guidance was received in November 2019 from CIPFA – "Prudential Property Investment".

The Key Factors Impacting on the Budget

Spending Review, Fair Funding Review & Business Rates Retention

25. The government's 2019 Spending Review was delayed for a year to 2020/21. It is expected to determine the future funding for local government levels for a four year period (but could be less). The Fair Funding Review will determine the split of available funding between authorities for 2021/22 onwards.

26. Also in 2021/22 the government are changing the funding methodology for local authorities. This will see the end of direct government grant (Revenue Support Grant) for those still receiving it and a move to increased funding from business rates retention (75% retention – up from the current 50% level). This originally being to help meet the commitment given to local authorities for more control over the money they raise locally.

27. The Fair Funding Review will calculate new baseline funding levels based on an up-to-date assessment of the relative needs and resources of local authorities. Business rates will be redistributed according to the outcome of the new assessment, alongside the resetting of business rates baselines. Transitional measures are expected to assist those losing funding.

28. It is clear from the government's forward spending plans, at the time of writing, that the overall level of spending on local government will not be increasing. Given the funding pressures on Adult Social Care budgets in particular, district and borough councils cannot plan for a more equitable, or greater, distribution of funding.

Funding from Business Rates

29. The government launched the Business Rates Retention (BRR) scheme on 1 April 2013 as one of the main forms of local government funding. Instead of a single grant settlement the Council received Revenue Support Grant (RSG) and the Business Rate Baseline Funding level (expressed as Baseline Need). The two figures effectively made up the Settlement Funding Assessment (SFA). Whilst the government calculate a notional business rate figure they believe each Council should collect, ultimately it is the actual level of business rates collected that will determine the total funding actually received for this element of the settlement i.e. the level of RSG was guaranteed throughout the year whilst the business rate element is not.

30. The business rate, itself, is set by the government with regard to the change in the Retail Prices Index. The proportion retained in Hastings would with 50% retention be 40% to Hastings BC, 9% to ESCC, and 1% to the Fire and Rescue Authority. The remaining 50% collected by the Council goes to the Government.

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

32. Under the existing 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.

33. The existing 50% central government share is distributed through the annual local government settlement process – thus enabling the government to control the overall amount received by local authorities. 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 now in 2021/22 (overtaken with the Fair Funding review). The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

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

Business Rates - Pilot Project (2019/20)

35. For 2019/20 the Council, along with the other members of the pool (East Sussex County Council, all East Sussex Boroughs and Districts, and the Fire Authority) applied for, and achieved Pilot status, whereby the Councils retain 75% of business rates, but lost all of the Revenue Support Grant. The Council's baseline funding levels being amended to reflect the loss of grant. This effectively brought forward the funding methodology that will apply from 2021/22 onwards.

36. The pilot for 2019/20 is under evaluation but appears successful. However, the government announced that no applications for a similar pilot would be sought for 2020/21and hence Councils have reverted to submitting an application for a 50% pooling arrangement once more. Whilst the funding will be reduced from 2019/20 levels it will still be higher than if no pool existed. The application has been successful but is will not provide significant income in 2020/21 for the Council as overall rateable values have fallen in the borough following appeals in particular.

37. The benefit to East Sussex as a whole is that more of the business rate growth is retained in the county – rather than being paid to the government in the form of a levy. The potential risk is that should the councils see a decline in the business rate income any losses are shared by the authorities in the pool.

Business Rates Income – 2020/21

38. The government after determining the business rates baseline levels back in 2013 included small business rate relief within its own budget proposals - this effectively reduced Councils' income. The government is reimbursing authorities for this and other changes it has made over the years.

39. Last year the government announced in the 2018 budget a new business rates retail discount scheme. The scheme applies to occupied retail properties with a rateable value below £51,000 in each of the years 2019/20 and 2020/21. The value of the discount is 1/3 of the bill and is applied after mandatory and discretionary reliefs are applied. The relief is for a short period only – ending after 2020/21. As a result, the level of rates that the Council will actually collect will decrease by some £660,000, of which the Council's share is assessed at some £290,000. This sum is reimbursed by Section 31 grant monies from the government. The government announced an increase in the percentage to 50% and the extension of the relief to include cinemas and pubs (details awaited).

40. The directly paid income in respect of rates is now estimated to amount to some £1,536,715 for Hastings in 2019/20. The amount for 2020/21 cannot yet be calculated.

41. The rateable value (RV) of business properties at the start of the 2020/21 year is forecast to be some £62.55m (some £201,000 lower than 2019/20). However given the level of appeals, forecasting income levels for 2020/21 and beyond remains challenging. Business rates and the levels of appeals/ growth/ decline has been highlighted as a real risk yet again and will continue to impact significantly on the Council's level of funding. It is one of the key risks that the Council faces in terms of income volatility.

42. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council will collect some £21.1m of which the Council share is some 44% (reducing to 40% in 2020/21 - some £8.46m in 2020/21). For Hastings however with a Baseline Need that is lower than the Business Rate Baseline a Tariff is paid to central government – this amounts to £5,667,405 in 2020/21. The estimate of the business rate income collected that will be

retained by the Council in 2020/21 as a result of entering into the Business rate pool amounts to £2,771,000 (compared to £3,512,000 in the 2019/20 revised budget – under the pilot scheme). These figures are subject to significant change.

43. The Council is required to make an annual assessment of the income it expects to collect from Business Rates, and to provide these figures to government, East Sussex County Council and the Fire and Rescue Authority who each receive a share of the actual rates collected.

44. The continuous changes to the legislation and the calls on a national basis to reform business rates completely provides major uncertainty for what is intended to be the Council's major source of external funding from 2021/22.

External Funding – Annual Grant Settlement

45. The 2020/21 provisional finance settlement was finally announced on 20 December 2019 with the final settlement figures received on the 6 February 2020 (there were no changes).

46. The settlement provides details of the Revenue Support Grant (£1,004,283 - now reinstated for Hastings BC) and level of Business Rates that the government expects councils to retain – the Settlement Funding Assessment.

47. The provisional Council Tax Support Grant figure has been received; It is understood the final figure will be advised in April 2020 once the caseloads for 2019/20 are available.

External funding – Benefit and Council Tax Administration Grant

48. The Benefit Administration Grant for 2020/21 has increased to £397,789 (from £389,046 – representing a 2.2% increase) (see Appendix 1). A revision to the methodology was announced last year which saw the Council lose further grant.

49. The level of Council Tax Support Administration Grant receivable in 2020/21 has now been notified at £157,497 (£164,592 received in 2019/20). This represents a reduction of £7,095 (a 4.5% reduction).

50. Discretionary Housing Payments (DHP's) play a vital role in supporting a lot of people affected by the welfare changes. It should also be noted that the Discretionary Housing Payments (DHP's) funding received from the government to assist those in severe financial hardship, is not only covering those with Housing Benefit claims, but also covers those in receipt of Universal Credit. As such the number of referrals from Universal Credit recipients is increasing – and adding an extra layer of administrative complication. The grant figure for 2019/20 amounted to £381,729. The figure for 2020/21 is still awaited. This funding will be fully subscribed.

External Funding - New Homes Bonus

51. 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 2020/21 amounting to £199,482 (down from £556,337 in 2019/20 - **a funding loss of £356,855**.

52. The government changed the scheme in December 2016 to divert money to social care. It reduced the period it was payable for - from 6 years to 4 years with a transition year for 2017/18 whereby 5 years was payable. The government also decided to introduce a minimum growth baseline of 0.4% below which the bonus will not be paid; this they state reflects a

percentage of housing that would have been built anyway. The payment of a small amount to reflect the increase in affordable properties was not affected by the threshold decision.

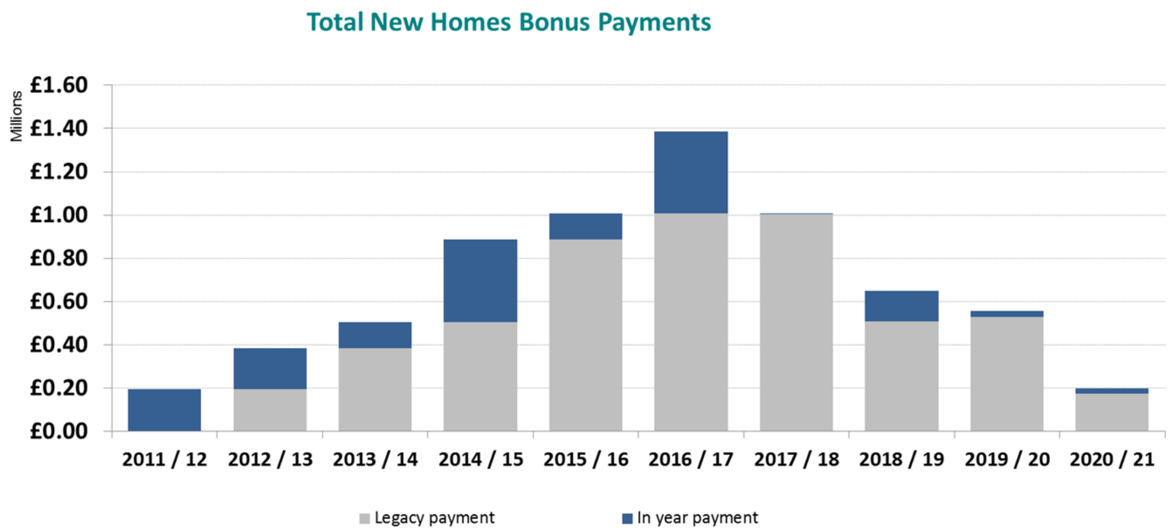
53. The Council Tax Base return (CTB 1 in October each year) identifies the number of new properties completed and the number of long term empty properties brought back into use (net). For the 2020/21 calculation this amounts to some 158 new properties but some 119 of additional empty properties and does not therefore meet the threshold of achieving more than 0.4% of the housing stock (0.12% achieved). The number of affordable properties completed amounted to some 90 for which there is a payment of £350 per property (shared with the upper tier authority); resulting in additional income amounting to some £25,200 for 2020/21. The funding for 2020/21 is a "one-off" with no ongoing legacy payments.

54. The table below shows the estimated New Homes Bonus receivable by the Council in 2020/21 and estimates for future years – based on no further changes to the grant.

Table: New Homes Bonus

Year	2017/18	2018/19	2019/20	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			26,320	26,320	26,320	26,320
Year 10				25,200		
Total	1,008,964	649,559	556,337	199,482	168,682	26,320

55. The reduction between 2019/20 and 2020/21 is a funding loss of £356,855. The graph below identifies the funding levels since 2011/12 and the massive reductions since 2016/17.



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

57. As identified in February 2019 there remains a real risk that this grant regime could be ended as part of the "Fair Funding review" and not be replaced. The government did state that they would explore how to incentivise housing growth most effectively, by for example using the housing delivery test results to reward delivery or incentivise local plans that meet or exceed local need, but nothing has been communicated since.

Summarised Grant Position

58. 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).

59. It is said that this is a one year standstill settlement. If there is a fair funding review with resources redirected towards authorities with social care responsibilities, it would be hoped that the worst case scenario would see transition schemes in place limiting the funding reductions to some 5% in future years. New Homes Bonus is set to decrease further in the years ahead as is the Benefit Administration Grant as the country moves towards Universal Credit and away from housing benefit.

60. In 2020/21 the Council will receive business rate income and also Revenue Support Grant at a combined level that is similar to the Settlement Funding Assessment for 2019/20. New Homes Bonus is however some **£357,000** less than in 2019/20 as detailed in the report and is set to fall further. This loss of grant when combined with the additional costs from inflation, waste and street cleaning, pay increases, temporary accommodation costs and other demand pressures present the Council with significant financial and resource challenges.

Income Generation

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

62. The Council identified some £50m in September 2017 to be spent on commercial property, housing and energy initiatives over a 3 year period. The commercial property allocation was spent in 2017/18 and 2018/19 and was extended on a case by case basis as further options were identified in late 2018/19 and again during 2019/20. In respect of Housing, the housing allocation has been switched to purchasing temporary accommodation directly by the Council – such sums are contained within the Capital programme. In terms of energy, a small amount was spent in 2018/19 and schemes are being developed – particularly on ground mounted solar. As a result the 2020/21 budget and capital programme sees a further revision to the predicted net income streams. These estimates will be revised further once the energy initiatives in particular are agreed – should they prove viable. The Capital programme includes sums that are earmarked for Ground Mounted Solar installations for example which may proceed subject to a satisfactory business case receiving approval by Cabinet during 2020/21.

63. The table below highlights some of the acquisitions and initiatives that have not only helped to regenerate the borough, but secured non domestic rating income as well as generating income or saving money. This goes a little way to meeting the massive funding reductions the Council is experiencing and thus helps to protect services.

Acquisitions/lettings	Estimated Income/Rent Saved-2020/21	Estimated MRP and Interest 2020-21	Estimated Net Additional Income 2020-21	Estimated Net Additional Income by 2023/24
	£	£	£	£
Muriel Matters	321,000			
MM Shops	41,000			
Sub Total	362,000	220,800	141,200	141,200
Muriel Matters - Council Chamber etc	23,000		23,000	23,000
Town Hall	97,000		97,000	97,000
BD Food Factory	40,000	91,488	(£51,488)	(£51,488)
Sedlescombe Road North	465,067	294,613	170,454	170,454
Sea Front Kiosks	7,900		7,900	7,900
Bexhill Rd Retail Park	547,080	356,660	190,420	190,420
Sedlescombe Rd North (2)	136,527	97,346	39,181	50,435
Bexhill Road Redevlopment Site	211,200	328,789	(£117,589)	93,611
Lacuna Place	427,126	355,737	71,389	250,049
Heron House	190,000	107,952	82,048	82,048
26-28 London Rd and 35 Shepherd Street	89,900	62,210	27,690	27,690
Property Fund	85,000		85,000	85,000
Totals	**2,681,800**	**1,915,595**	**766,205**	**1,167,319**

64. The Council is able to borrow for capital expenditure but must determine its overall borrowing limits prior to the start of the financial year. It is able to vary them within the year, but such decisions can only be taken by full Council. The purpose of setting borrowing limits is to ensure that the borrowing costs are prudent and affordable when determining the budget. The proposed levels are contained within the Treasury Management Strategy which is considered by the Audit Committee and Cabinet before being determined by full Council.

Fees and Charges (Including Car Parking)

65. The Council has limited reserves and remains reliant upon income streams and investment returns to balance the budget. Rental streams from shops remain under considerable pressure. Given that income streams remain a risk, fees and charges have been kept under careful review and are considered annually against the background of Council priorities, the local economy and its needs, and people's ability to pay.

66. With a number of exceptions, fees and charges have generally been increased in line with market fees, and as a minimum by the retail price index - except where set by statute. The majority of planning fees are determined nationally by government.

67. Car parking charges were last increased in February 2019 for a 12 month period (applicable from 1 April 2019). The Council has experienced increases in business rates on some of its car parks following the 2017 national revaluation and expects to do so again at the next revaluation in 2021. Likewise the Capital programme and Capital strategy include significant expenditure for the Priory Street car park – in order to enhance its useful life.

68. It remains important that those car parks situated near to the commercial hub are priced effectively to ensure that spaces are available for shoppers whilst not deterring shoppers. As such it is proposed to hold car park charges at current levels for 2020/21.

Investment and Borrowing

69. Base rates increased to 0.75% in August 2018 from their previous level of 0.5%. The relatively low levels of interest received on investment balances looks set to continue. The Council's Treasury advisers are predicting a rate of 1% by March 2021, but given Brexit and uncertainties in the world economy interest rates could be cut sooner rather than later.

70. Given the restricted counterparties list, investment returns of around 0.75% (excluding property funds) are currently estimated for 2019/20 and 2020/21. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

71. The Council will have additional borrowing requirements of some £15.4m in 2019/20 to finance the acquisition of temporary accommodation, commercial properties and other capital schemes. A sudden increase in the Public Works Loan Board (PWLB) rate by 1% across all periods in October 2019 seriously increases the borrowing costs for all capital projects in the future.

72. In 2020/21 and beyond borrowing requirements are very high given the ambitious plans of the Council. The affordability of these needs to be properly tested, on an ongoing basis given the ongoing uncertainty around Council funding, the level of reserves available, and the significant ongoing additional costs of temporary accommodation.

73. Whilst alternative borrowing sources to the PWLB can be identified, the costs may be significantly higher and the timescales to obtain funding will be far longer and processes and loan agreements far more involved and time consuming.

74. The Capital programme if approved will increase borrowing levels to some £103m by 2021/22 and potentially up to £130m if the Council approves and funds the development of the lower tier Bexhill road site at a future date. This figure excludes any borrowing in respect of Bohemia. This programme would increase annual borrowing costs substantially as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision) – this is not a sustainable option given the Council's financial position unless alternative funding is identified.

75. There are substantial potential projects and developments that are being considered and progressed within the Council (as detailed in the Capital Strategy) that are currently unaffordable given the current level of financial commitments and continued uncertainty on future funding.

Inflation

76. This had not been a major issue over the last couple of years. In December 2019 it was 2.2% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 1.3%.

77. Inflation, according to the Bank of England Monetary report (November 2019) is expected to be at or around the 2% target in the next two years (mid 2021) – subject to a satisfactory Brexit arrangement.

78. Based upon the above projections, general inflation is being allowed for at 2% overall for 2020/21 and beyond. However, only contract inflation is being allowed for in the budget i.e. a real cash freeze again for all other service expenditure areas. Any increases above this level would need to be contained within service budgets within the year.

Public Sector Pay Settlement and National Living Wage

79. The budget assumes a 2.5% increase for 2020/21. There are also contractual increments (equivalent of around ½%).

80. The salaries budget together with national insurance and pension costs amount to some £13.2m in 2020/21. The Council's own salary costs have increased as a result of taking on the Street Cleaning service in 2019/20.

81. The Council remains committed to paying the accredited living wage of £9.30 per hour (for over 18's from 1 April 2020 – up from £9 p/h (a 3.3%increase). This is higher than the national minimum wage for over 25's - which increases to £8.72 from 1 April 2020 from £8.21 (a 6.2% increase). The last pay settlement caused pay scales to be amended reflecting the effects of the higher increases at lower pay scales.

Universal Credit and Benefit Administration Grant

82. Universal Credit was originally expected to commence in October 2013 in respect of new claims with the transfer of existing claims being completed by 2018/19. The first new claims actually took place in April 2015 but had relatively little impact on the service until the 14 December 2016 when all new claims for those of working age and some change of circumstances transferred to Universal Credit.

83. The impact of the change is a reduction in new benefit claims, an increase in questions and support, and significant year on year reductions in the Housing Benefit Administration grant receivable.

84. The timescales for the final stage of converting existing working age Housing Benefit claims onto Universal Credit remains unclear – albeit to be completed by 2022 supposedly. However there appears to be no immediate plans for the transfer of pensioners or the more complex cases away from Housing Benefit – which could see the Council retaining some 40% of cases.

85. The Department for Work and Pensions (DWP) are providing some additional funding to the Council, but much of the funding is now being paid directly to external support organisations e.g. to those providing debt advice, etc., and is paid on a per head basis; Some funding is payable to the Council to meet the additional burdens on dealing with DWP enquiries, complex cases and closing down existing claims. How much, and for how long this funding remains, is uncertain.

Council Tax Support Scheme

86. In 2013/14 the government paid an upfront grant in respect of Council Tax Support/Benefit, leaving the Council to fund any "in year" increase in demand. In 2014/15 the Council Tax Support Grant was rolled into the Settlement Funding Assessment and thus effectively decreases in line with the annual reductions in government grant funding.

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

88. The cost of the scheme is set to increase from some £10.6m to some £10.85m in 2020/21. The Council's costs are set to increase by a further £35,000 (HBC's share of the additional

£250,000 p.a.). If there is recession with more people claiming benefit the costs could increase very substantially and relatively quickly.

89. The other East Sussex Councils amended their schemes for 2016/17 given the ever increasing unaffordability of the scheme. The major change made by them being that all households of working age made a minimum 20% payment. Options have again been explored by this Council for 2020/21. These included minimum payments of 3%, 10%, or 15%.

90. Following a review by lead members it is proposed that there will not be any material change to the scheme for 2020/21other than to amend the allowances/deductions in line with national changes. It is recommended that full Council adopt the existing scheme subject to the determination of allowances being delegated to the Chief Finance Officer in line with prior year practice.

91. The Council Tax Support Scheme continues to pose a significant financial risk for the Council. That risk being that should claimant numbers increase the additional costs now fall on the Council and its preceptors rather than the government. The Council will need to continue to retain adequate reserves for this purpose.

92. Given that overall levels of government funding continue to decline year on year, the Council will again need to review the affordability of the scheme during 2020/21, and will look to do so in conjunction with neighbouring authorities.

Pension Fund Contributions

93. 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 has been undertaken in 2019 with revised contribution rates becoming payable from April 2020.

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

95. The rates payable by the Council in 2019/20 consist of the primary contribution rate plus 0.75% for future non-ill health retirements (these are percentages of salaries of staff in the pension scheme) plus a secondary rate(or lump sum), namely:

    The rate for 2019/2020 is : 17.3% +0.75% + lump sum of £594,000 (6.5%)

96. The rates payable by the Council for 2020/21 and the subsequent two years are as outlined below.

    2020/2021 is : 17.6% +0.75% + secondary contribution rate of 6.5%
    2021/2022 is : 17.6% +0.75% + secondary contribution rate of 6.0%
    2022/2023 is : 17.6% +0.75% + secondary contribution rate of 5.5%

97. The above figures represent growth of some £18,000 in 2020/21. The reductions in secondary contributions in 2021/22 and the following year should offset the impact of the annual increase in pay on pension costs.

98. The figures released to date are not the final ones, but are not expected to vary significantly. Confirmation that the 0.75% non-ill health rate is still appropriate has been obtained. The actuary has made an allowance for a recent ruling called the McCloud judgement, but the

precise costs will not be known for many months – this will be taken account of in future valuations.

Staffing, Information Technology and Property

99. 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 corporate plan.

100. 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.

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

102. 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

103. 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, Rough Sleeper Prevention, Coastal Communities funding, Future Cities, and Active Women Programme, Answers in the Local Economy (ACE), Hastings Fisheries Local Action Group (HFLAG).

104. 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).

105. Of particular significance is the Towns Fund - £3.6bn national initiative focusing on 100 towns of which Hastings is one. The Council is invited to submit proposals for a £25m funded grant to aid further transformation. To assist the Council in pulling a proposal together, developing business plans and establishing a Town Deal Board it is receiving £173,029 of funding. The Town Investment proposal to be submitted in summer 2020.

106. The Towns fund provides the means to carry on the transformation of Hastings when other funding remains unclear e.g. loss of EU grants and what if anything will replace them.

Revised Budget 2019/20

107. Since determining the budget in February 2019, the Council's budget has been enhanced by the receipt of a number of grants and additional funding sources, all of which will be matched with expenditure and are not therefore expected to reduce the in-year deficit. Of significance is the funding for Disabled Facility Grants which was advised in May 2019 and amounts to £1,812,584.

108. The revised 2019/20 total service expenditure budget amounts to £14.645m, against an original budget of £13.625m (Appendix A). The original deficit was estimated at £1.747m and is now estimated to amount to some £1.798m (an additional £50,000).

The main expenditure variations are summarised in Appendix C. Of significance are:-

(i) the additional costs of temporary accommodation – now estimated to exceed the budget by some £380,000 (including borrowing costs)

(ii) the temporary closure of the West Hill lift – estimated this will cost in the region of £100,000 in terms of lost income and the specialist repair costs

(iii) Land Charges - income is projected to reduce from £293,000 to £211,000 – a reduction of £82,000.

109. Redundancy costs fall within the year that the decision is made. The estimated costs, given the potential staff affected amount to some £1.046m. These consist of direct payments to staff and payments to the pension fund for what is termed pension strain costs. In the 2019/20 budget £400,000 was allowed for (£225,000 funded from the Redundancy Reserve). The remaining £646,000 would need to be funded by use of all the remaining redundancy reserve (£481,000) and using the remaining Transition Reserves and some of the Specific Reserves.

110. The Council's agreed pay policy requires any redundancy package exceeding a £95,000 cost to the Council (i.e. including Pension strain costs) has to be agreed by the Employment Committee and thereafter by full Council.

111. Given that the Council is likely to incur further significant redundancy costs in 2020/21and beyond it is recommended that £500,000 of the remaining General Reserves be transferred to the Redundancy Reserve.

112. A number of in-year savings have been identified e.g. insurance contract (£150,000), business rate appeal on the cemetery (£35,000 p.a. ongoing saving) and a number of staff posts that have not been filled (£77,000). These, and other savings, have however been totally offset by the projected increase in temporary accommodation costs in 2019/20.

113. Business rate income remains an area of high volatility and risk – particularly with the high level of outstanding appeals. The total rateable value in 2019/20 has reduced from some £62,755,000 at the start of the year to an estimated £62,554,000 at 31 March 2020. The loss of £201,000 of rateable value translates into some £100,000 p.a. loss of income. The level of appeals outstanding both nationally and locally continues to be a threat and is impacting significantly on the retained income levels.

114. The projected deficit for 2019/20 is £1.798m and necessitates using most of the remaining Transition Reserve (£946,898 – leaving £253,102 for use in 2020/21), all the Economic

Development Reserve, all the Community Safety Reserve and all the Redundancy Reserve, as well as some £200,000 of the Resilience and Stability Reserve.

115. The £1.798m figure is dependent on who is made redundant, the actual pension strain costs incurred, payment of outstanding benefits e.g. accrued leave, as well as the issues which can cause financial uncertainty within the remainder of 2019/20. These include for example the business rate appeals, development control income, car parking income, commercial property income, economic climate, borrowing costs, investment returns, bad debts, legal claims and any change in employment levels, benefit costs, temporary accommodation costs.

116. In terms of Capital expenditure in 2019-20 the Council is planning to spend £18,461,000 (Original budget £19,251,000) on capital projects during 2019-20. Of this £15,395,000 is due to be funded from borrowing, £2,881,000 by grants and contributions, and £185,000 from capital receipts.

Budget 2020/21

117. The Council's total service expenditure in 2020/21 is estimated at £12.3m. This compares to a revised estimate of £14.646m for 2019/20 (which includes the £1.046m of redundancy costs). The total expenditure for the Council increases to £15.493m in 2020/21 once net borrowing and debt repayment costs are taken into account.

118. Funding reductions have continued with the loss of new homes bonus monies in particular (£357,000). After allowing for a 1.99% increase in Council Tax and an increase in the Council tax base of 1%, the total funding to be met from Grant and the Collection Fund is estimated at £13,063m (down from £13.329m – representing a 2% decrease).

119. A balanced budget can be achieved with the use of £2.429m of reserves in 2020/21 (£1.247m earmarked, and £1.182m to fund the remaining deficit). This £1.182m deficit being funded from the Council's Transition Reserve and General Reserve – leaving these at level which is just above the minimum level recommended (£6.487m against a minimum recommended level of £6m).

120. To help achieve the balanced budget for 2019/20, PIER saving targets were set as part of the budget setting process in February 2019; the achievement or otherwise of these will be reported to Cabinet in July 2020.

121. Services need to continue to identify opportunities to make in-year savings during 2020/21 and investigate other ways of achieving corporate objectives when staff leave the organisation.

122. After ten years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required to even achieve the levels of reduction required. The cuts directly impact on services, staff and their families.

123. As part of this year's process reductions of £1.784m have been identified for 2020/21, increasing to £2.37 in 2021/22 and £2.416m in 2022/23. These reductions have been partly offset by growth. Please see Appendices K and K2 for details. Some of the savings were identified as part of previous year exercises e.g. reductions in Community Partnership Funding, theatre funding and are separately identified.

124. The savings listed will impact across many parts of the Council's activities and involve the Council in significant reorganisation and job losses. Some 25.7 full time equivalent staff posts would be involved of which some are currently vacant.

125. Significant additional funding has been received in the last few years to help address the homelessness issues. These include Private Rented Sector Access funding of £329,000 in 2019/20, and Flexible Homelessness Support Grant (FHSG) - £745,258 & a further £225,000 top up in 2019/20. Large sums for rough sleeping initiatives have also been received in 2019/20 (some £1.1m in total – including £310,000 for the Rapid Rehousing Pathway). A similar funding amount has been awarded for 2020/21 in respect of FHSG (£745,258) - which has been allowed for in the 2020/21budget. A further grant of £211,517 has been notified (23 December 2019) in respect of Housing Reduction Act. Even with these sums the net cost of Housing to the Council has increased.

126. Energy Efficiency Regulations Enforcement

The government are looking to work with Hastings BC in 2019/20 to pilot activity in the private rented sector around minimum energy efficiency regulations enforcement. In the first year of pilots, each LA will be provided with S31 grants (£48,600 awarded for 2019/20). A Memorandum of Understanding agreed with the government will help guide activities relating to the study at a high level (advised that this would not have any formal conditions attached). The funding would all be made available through a single upfront award, and as such there would be no milestone payments or payments dependent on completing specific tasks. In order to be in a position to move quickly, it is being recommended that authority be granted to enter into a Funding agreement/ Memorandum of Understanding with the government (BEIS) subject to no adverse grant terms and that appropriate authority is granted for expenditure up to the level of funding received in 2019/20 and periods thereafter.

127. The estimated balance on the Collection Fund at 31 March 2019 in respect of Council Tax is a surplus of £50,307(Hastings BC share). There is also however an estimated deficit on the Collection Fund in respect of business rates of some £187,752.

128. **Growth Proposals**

In addition to the reductions in grant funding e.g. New Homes Bonus there are a number of costs, that impact on 2020/21. These include :

i) Pay increase (estimated)
ii) Pension cost increase
iii) Interest rates – Investments vs borrowing rates
iv) Rateable values and appeals

129. There are significant areas of growth in 2020/21. These include:

(i) the full year effects of the contracts for waste and street cleansing services (£205,000) and loss of recycling credits (£83,000),
(ii) Temporary accommodation (£380,000) – full year impact (including borrowing costs),
(iii) Local election (£110,000),
(iv) Pension Fund revaluation (£18,000).
(v) Bohemia (£100,000 – of which £65,000 is growth) for ground surveys).
(vi) Climate Change officer (£50,000)
(vii) Cliff works (£100,000) – funded from Renewal and Repairs Reserve
(viii) Lower Land Charges Income (£82,000)

130. In addition funding reductions in respect of New Homes Bonus (£357,000) and a deficit on the collection fund (£137,000). There are also numerous areas of uncertainty in attempting to determine the available resources e.g. wage settlements, inflation, future investment and borrowing costs.

131. The remaining Invest to Save monies are largely committed. In February 2019 it was agreed that the use of the monies be determined under delegated powers by the Chief Finance Officer in consultation with the leader of the Council. It is recommended that the use of these sums is again determined for 2020/21 and beyond under delegated powers by the Chief Finance Officer in consultation with the leader of the Council. The reserve will largely be exhausted during 2020/21.

132. As a result of inflationary impacts the Council can expect the costs of external service provision and supplies to rise.

133. The Capital programme is detailed separately in the report. There are aspects of Capital schemes e.g. feasibility studies that cannot be capitalised. These aspects will in the main continue to be funded from revenue reserves. Likewise the Council can recover some costs of disposal (revenue costs) from capital receipts when assets are sold.

134. Given the continuing pressure on revenue resources and reserves the Council will soon be unable to afford the upfront costs associated with new projects/disposals unless it is able to set a sustainable budget in the very near future.

135. In summary there is an estimated deficit of £1,182,000 in 2020/21. The savings identified and additional income generated, mean that a balanced budget can be achieved in 2020/21 by using £1,182,000 of reserves.

136. To achieve a balanced budget in 2020/21 without using reserves at this stage of the budget process would be difficult given the notice and consultation periods required for staff redundancies. Whilst difficult to achieve for the start of 2020/21, the Council must continue to review the level of service it can provide and transform the way it delivers those services in order to balance the budget. Priority, at least in the short to medium term, needs to be directed towards making urgent in year savings, whilst also concentrating on achieving the savings identified in the PIER process as listed in Appendix K. Priorities also remain for enhancing and preserving existing income streams, recovery of debt, transformation of services and making a successful bid for the £25m Towns Fund, and at the same time undertake a significant reorganisation without losing key staff.

Budget 2021/22 and beyond

137. The results of the government's Spending Review (2020), the Fair Funding Review and move to 75% business rate retention will undoubtedly alter the projections for 2021/22 and beyond. However based on current assumption of no new monies being available to Borough and District Councils overall, this section makes a best estimate of future budget shortfalls.

138. The table below shows deficits of £798,000 in 2021/22, £698,000 in 2022/23, and £525,000 in 2023/24 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.

	2019/20 (Revised) (£000's)	2020/21 (£000's)	2021/22 (£000's)	2022/23 (£000's)	2023/24 (£000's)
Net Expenditure	15,127	14,245	14,190	14,191	14,246
Funding	(13,329)	(13,063)	(13,392)	(13,493)	(13,721)
Shortfall	**1,798**	**1,182**	**798**	**698**	**525**
Use of Reserves	(1,798)	(1,182)	0	0	0
Estimated Shortfall	**0**	**0**	**798**	**698**	**525**

139. To achieve a balanced budget in 2021/22 further savings of £798,000 need to be identified.

140. To achieve a balanced budget in 2022/23 savings of £698,000 need to be identified. By 2023/24 the figure reduces to £525,000. Such projections carry significant uncertainty – and take no account of any potential 5% annual decreases in future funding levels.

141. The future projections are identified in more detail in Appendix G. These estimates assume savings and additional expenditure and will be refined as and when more information is available.

142. The deficits are estimated to amount to:
2021/22 - £798,000
2022/23 - £698,000
2023/24 - £525,000

Council Tax

143. The Council has a record of lower than average tax increases, as identified in the table below.

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
2019/20	2.98%	4.7%	265.50

144. The tax base for 2020/21 is some 1.2% higher, as a result of additional properties and the reduction in numbers of Council Tax Support claims. The effect is to increase the tax base from 25,865 to 26,197 (worth some £88,000 p.a. to HBC alone).

145. It is again open to the Council to increase Council Tax for 2020/21. One percent on the Council Tax will equate to around £69,500 of income for this Council.

146. The 2020/21 budget projection assumes a further contribution of £50,307 from the Council's Collection Fund in respect of Council Tax. In terms of business rate income there is a deficit estimated at £187,752. The overall deficit on the Collection Fund being estimated at £137,445 at 31 March 2020.

147. The government have yet to announce whether a shire district or borough Council can increase Council Tax by more than 2%. If higher then it will be required to hold a referendum.

148. The figures in the appendices (Appendix M) show an indicative 1.99% increase for Hastings BC, a 3.99% increase for ESCC, 1.99% for the Fire Authority and a £10 increase for the Police and Crime Commissioner.

149. Council Tax is at £265.50 p.a. (Band D – Hastings BC element) and a 1.99% increase for 2020/21 would take this to £270.78 p.a. (a £5.28 per annum increase for a Band D property – a 10p per week increase in respect of Hastings Borough Council).

Asset Sales - Capital Receipts

150. A number of revisions to the programme have been made to take account of changing circumstances. Appendix L provides the profile of programmed receipts. In addition to the sites listed, opportunities for other asset sales and disposals continue to be explored.

151. The council will continue to consider if there are options other than outright disposal that might generate revenue income and/or address strategic housing or economic priorities. Proposals for partnership with others (particularly the private sector) may provide alternative options to achieve council objectives. If such options are developed they would obviously require close scrutiny and clear understanding of longer term implications as well as short term benefits.

152. It has been the aspiration of the Council to develop out its own sites e.g. Harrow Lane, Mayfield E, Bexhill Road sites. However, the Council can no longer afford to develop all the sites itself and needs the income streams from investing the receipts in order to help balance the budget. It also needs to ensure the sites are developed rapidly in order to meet a severe housing need – and reduce the temporary accommodation costs.

153. The budget proposals include the disposal of the Harrow Lane, Mayfield E and Bexhill Road (South) sites. Some sites the Council has already agreed to market and sell e.g. Land at Whitworth road, Old Town Hall (if a viable alternative rental is not achieved shortly).

154. It is the intention that the Council will fund (or part fund) the development of a number of sites that it owns, namely Cornwallis Street car park (hotel development), Harold Place (Restaurant/Bistro), Industrial units (Churchfields Estate), York Buildings (conversion above shop to 6 flats), Bexhill Road (housing).

155. As ever it remains imperative that the Council maximises its capital receipts. These will be invested directly or used to finance borrowing (thus avoiding borrowing costs). Failure to maximise these may necessitate curtailment of the already limited capital programme given

the costs of borrowing. The additional costs of borrowing fall directly on the revenue account in terms of interest payments and annual contributions towards the repayment of the principal (i.e. Minimum Revenue Provision (MRP)). If there are invest to save efficiencies then these costs may be offset. Appendix E identifies the capital financing/borrowing requirement over the life of the capital programme.

It should be noted that capital receipts can generally only be used for capital purposes. It is recommended that asset disposals be brought forward if market conditions make it sensible to do so.

156. It is recommended that where a Capital scheme involves a net increase in costs to the Council e.g. Buckshole Reservoir, or where any guarantee is to be provided which does or could incur costs for the Council, such decisions are now made by full Council. The Financial Rules and Financial Operating Procedures authorise the Cabinet to agree new Capital Schemes. This is effectively at odds to the Financial Rules which require the Cabinet to operate within the financial and budgetary envelope determined by full Council. This has not been an issue in the past, and instances are few and far between, but given the financial position of the Council such decisions should be determined by all members.

157. Likewise, it is further recommended that no properties or land be disposed of, either by sale or long leasehold, at less than market value without further express approval by Full Council.

Capital Programme

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

159. The proposed programme satisfies the requirement that schemes meet the following criteria:-

Contribute towards achieving the Council's corporate priorities and one or more of the following:-

a. be of a major social, physical or economic regeneration nature,

b. meet the objective of sustainable development,

c. lever in other sources of finance such as partnership/lottery funding or provide a financial return for the Council,

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

160. For 2019/20 there is slippage on a few schemes, including the restoration of Pelham Arcade Works and Roadway, Private Sector Housing renewal, Energy (Solar).

161. The completion of the commercial development site in Bexhill Road will help to regenerate the area, provide new jobs and also produce an income stream and business rate income – completion due in late March 2020.

162. The level of Disabled Facility Grant (DFG) funding for 2019/20 was £1,812,584. Figures have not yet been advised for 2020/21. The funding is from the Better Care Fund and paid to the Council from East Sussex County Council rather than directly by the government. The capital programme will be revised once figures for 2020/21 are received. This is a capital grant and can be used for DFG purposes only. The budget is not currently being fully committed – the

projected underspends are transferred to an earmarked reserve, with a risk that they may need to be repaid. A balance of some £2.1m is anticipated as at 31 March 2020.

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

	Revised 2019/20 £'000s	2020/21 £'000s	2021/22 £'000s	2022/23 £'000s
Gross Capital Expenditure	18,461	26,100	19,122	1,882
Net Capital Expenditure	15,580	16,936	17,310	70
Financing from own resources	185	185	208	70
Borrowing Requirement	15,395	16,567	17,102	0

164. In terms of **net cost**, the **2019/20** programme has been revised to £15,580,000 from £16,656,000.

165. The **2020/21** programme amounts to £16,936,000 net of grants and contributions (£26,100,000 Gross).

166. The draft capital programme shows the status of the schemes

c denotes schemes which are committed
n denotes schemes that are new
u denotes schemes which are in the programme but as yet uncommitted

167. It is proposed that **schemes marked with an asterisk** (*) proceed without further reference to Cabinet or Council.

168. **Future Proposals:** Of significance are the potential schemes that will need funding in the long term e.g. new leisure and cultural centre at Bohemia if viable, and the development of the lower tier site on the Bexhill road. The potential sums involved are very significant and are identified within the Capital Strategy elsewhere on the agenda.

169. Should the Council seek to develop any sites itself, following viability assessments and proper business cases, and financed by borrowing, then the Council's Treasury Management Strategy and the Capital Strategy will need to be further reviewed and approved by full Council – as the borrowing limits and Prudential indicators can only be determined by full Council. This can take place at any time through the financial year if necessary.

Capital Programme – Impact on Revenue Account

170. In determining the affordability of new capital proposals the Council had been required to consider the incremental impact on the Council Tax for future years (this is no longer a reporting requirement). The Council does need to scrutinise business cases for capital proposals and carefully assess the potential future financial burden of such decisions. The Buckshole reservoir works have a capital cost of £837,000 which if funded by borrowing has an annual revenue cost of some £68,000 p.a.

171. The capital programme has significantly increased in the last few years, as economic and regeneration opportunities have been taken. In 2020/21 borrowing is set to increase to some £88m and approaches £105m by the end of 2021/22. To allow for the development of the Bexhill road site (North) the Council may need to allow for an additional £30m of borrowing headroom.

Investment in Council Assets

172. 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.

173. 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.

174. It should be noted that the expenditure on planned maintenance has been exceeding the annual provision made and will not be sustainable at current levels. The latest rounds of cliff works has all been funded from the reserve.

Minimum Revenue Provision (MRP)

175. 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.

176. 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.

177. The MRP is set to increase substantially in 2020/21 and beyond as a result of additional borrowing, particularly in respect of economic and regeneration initiatives. The MRP for 2020/21 is estimated at £1,624,000 (excluding any notional figures for leasing arrangements). The Council's MRP policy is determined by full Council as part of the Treasury Management Strategy in February for the forthcoming year.

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

CFR	2019/20 (Rev Est)	2020/21 (Est)	2021/22 (Est)	2022/23 (Est)	2023/24 (Est)
	£	£	£	£	£
CFR-Opening	59,370,380	73,641,380	88,471,380	103,737,380	101,267,380
Less MRP	(1,176,038)	(1,623,844)	(1,883,773)	(2,424,943)	(2,434,520)
Plus, New Borrowing	15,395,000	16,567,000	17,102,000	0	0
CFR Closing	73,589,342	88,584,536	103,689,607	101,312,437	98,832,860

179. These figures are very much dependent upon the level and timing of capital acquisitions/payments, the level of capital receipts received and the useful life of the assets acquired or constructed. The figures will continue to be reviewed throughout 2020/21 and regularly thereafter, based on the proposed Capital programme, and subsequent changes and timing thereof.

180. The Commercial properties and housing assets are generally financed over 40 years. A new development on Bexhill Road will be financed over 50 years through an Annuity loan i.e. paying off principal over the period of the loan. Vehicles are financed over their useful lives (7 to 10 years).

Reserves

181. The Local Government Act 2003 (Part 2) requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required when setting the annual budget. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual councils and potential liabilities that they face or may face in the future i.e. a risk based approach.

182. The strategic reasons for holding reserves are:-

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

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

    c. A means of building up funds to meet known or potential liabilities (provisions are used for liabilities with uncertain timings or amounts). Such reserves are referred to as Earmarked reserves.

    d. To assist in the transition to a lower spending Council

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

183. The Council maintains a working balance in accordance with (a) above in the sum of £500,000. In respect of (c) above there is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area. The full renewals and repairs programme is attached in Appendix J.

184. For the budget strategy reserves at 31 March 2020 are estimated to consist of:-

General Reserves	**Estimated Balance at 31.3.2020 £'000s**	**Estimated Balance at 31.3.2021 £'000s**
Revenue Reserves	7,416	6,487
Capital Reserve (Revenue monies)	50	50
Total	**7,466**	**6,537**

Earmarked Reserves	Estimated Balance at 31.3.2020 £'000s	Estimated Balance at 31.3.2021 £'000s
Renewals and Repairs Reserve	1,201	797
Insurance & Risk Management Reserve	315	300
IT Reserve	124	124
S106 Reserve	533	513
Government Grant Reserve	605	525
Revenue Hardship Fund	80	80
Monuments in Perpetuity	47	46
Ore Valley	250	250
Invest to Save and Efficiency Reserve	193	34
Resilience and Stability Reserve	400	400
Transition Reserve	253	0
Redundancy Reserve	500	275
Community Safety Reserve	0	0
Economic Development Reserve	0	0
Disabled Facilities Grants Reserve (DFG'S)	2,106	2,106
Clinical Commissioning Group	349	349
Selective Licensing	412	285
Housing Licensing Reserve	159	120
Other reserves	291	173
Total	**£7,817**	**£6,377**

185. At 31 March 2020 General and Capital Reserves will amount to an estimated £7.466m, of which some is already committed e.g. empty homes strategy (£150k). Earmarked Reserves amount to £7.817m of which most is not available to use on other than specific areas e.g. DFG grants. Total reserves at 31 March 2020 are estimated at £15.283m. The reserves are projected to decrease to £12.914m by 31 March 2021 (The estimated reserves position is shown in more detail in Appendix H).

186. As an absolute minimum, the General Reserve should be £6m i.e. the non- earmarked reserves. The use of the General Reserve to balance the 2020/21 budget leaves the General Reserve at just above the minimum level. The £6m level is the same as for 2019/20 and reflects the more difficult funding regime, volatility in income streams that the Council is so reliant upon as well as the experience of recent years which has seen financial claims being made against the Council e.g. pier claim and the mandatory rate relief claim in respect of NHS properties. This level is required to be maintained to cover unexpected expenditure, e.g. emergencies, potential over runs of gross expenditure and down turns in income sources, and was arrived at as follows:-

(i) 15% downturn in income (sales, fees, rents, etc) - £2m (Projection)

(ii) 5% over run in expenditure (including capital) - £2m

(iii) Unforeseen events/losses - £2m

187. The transition reserves will all be exhausted in balancing the 2019/20 budget. The minimum level of reserves is set at £6m and given the economic and funding uncertainties, exposures of income streams, volatility of Council Tax support costs these should be increased further in normal circumstances.

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

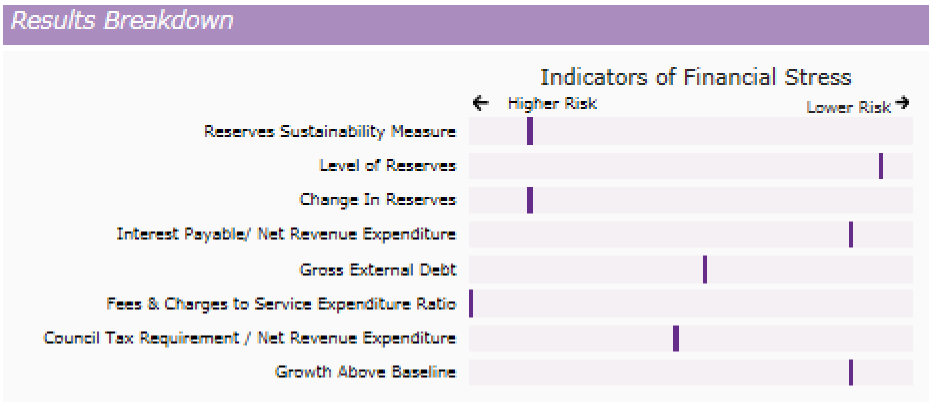
189. It is estimated that there will be some £487,000 of unallocated (at present) general reserve by the end of 2020/21. This is the only remaining funding that would be available to help fund and cover those costs that cannot be capitalised in any development programme. If the Council does not produce a balanced or sustainable budget then these reserves would have to be used to balance it. The carrying costs e.g. up front and interest costs of building major schemes such as Lower Bexhill road, York buildings, new industrial units at Churchfields, Visitor centre, hotel, could become unaffordable.

190. The Council continues to spend more on Renewal and Repair costs than it is setting aside and there are significant additional costs on the horizon e.g. further cliff maintenance and repairs that could be in the region of £1m over the medium term (1-5 years). The 2020/21 budget includes a further £100,000 funded from the Renewal and Repair reserve.

Budget and Resilience (Financial Stress) & Chief Finance Officer Statement

191. Flowing from the financial problems at Northampton CC, CIPFA developed a range of financial indicators relating to the resilience of local authorities given the funding crisis. The latest results are shown below – based on 2018-19 figures.

Table: Showing CIPFA Indicators of Financial Stress for Hastings BC



192. From the above table it can be seen that the key reserves sustainability measure places the Council in the higher risk spectrum. The ones that are not in the higher risk, based on 2018/19 figures, are the level of Reserves and level of earmarked reserves. However it needs to be made clear that these results are backward looking and the useable (by HBC) earmarked reserves can provide a misleading view e.g. includes Disabled Facility grants, Clinical Commissioning Group monies which are not useable for other than specific purposes. The Council's external debt is increasing and the total debt payments will also increase.

193. The indicators highlight that the reserves are being depleted faster than at other Councils, that there is a very low level of unallocated reserves (one of the lowest of all borough and district Councils), and that earmarked reserves are being used more rapidly. The analysis

identifies that grants and Council Tax form a significant element of the Council's net budget and as external funding diminishes this poses a greater risk to the Council's sustainability.

Reserves

194. The increasing use of the reserves has been fully highlighted elsewhere in this report, and it was always intended to use the transition reserves to help move to a lower spending Council. Whilst the Council has found savings it needs to find a lot more during 2020/21.

195. There is a view that the Council has significant reserves and can continue to operate for a couple more years with the large revenue deficits. Whilst not in the Northampton County Council position of having to issue a Section 114 notice to stop all spending, the implications of reducing the reserves further severely jeopardises the ability to meet unexpected costs, claims, shortfalls in income and particularly to finance the capital programme and new regeneration opportunities.

196. When reserves meet minimal levels and if there are no viable plans to reduce the deficits, it would be expected that the external auditors would issue a report under section 24 of the Local Audit and Accountability Act. This notice requires Councils to meet within a month, to consider any report issued, and start taking the difficult decisions required. A section 114 notice may follow shortly thereafter from the Chief Finance Officer. To reach this stage the Council could be said to have effectively failed in its responsibilities to manage its resources effectively.

Chief Finance Officer Statement

197. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to members on the robustness of the estimates and the adequacy of the reserves when considering the budget and Council Tax.

It is the view of the Assistant Director - Financial Services & Revenues (Chief Finance Officer) that

(i) the processes followed and the information systems used are sound and that the regular reporting and involvement of senior managers in managing budgets provides a degree of assurance that the resultant estimates are as robust as present economic circumstances and resources allow.

(ii) the reserves are currently adequate – but no more than adequate given the uncertainties surrounding future funding streams, and the difficulties that will be faced in identifying and achieving more savings and generating additional income without risking the future sustainability of the Council.

(iii) the reserves could now quite quickly become inadequate should the funding settlements in 2020/21 prove to poor, or there continues to be significant unforeseen expenditure .The reserves would not be considered adequate to undertake any number of large capital schemes before the future funding position is known. No Council should embark on large Capital programmes without due consideration of the financing implications in both the long and short term.

(iv) Financial monitoring and control within the Council needs to be further strengthened and there are recommendations within the report to this effect. In addition when services become aware that budgets may be exceeded or income to be less than projected offsetting savings need to be identified and achieved in the year wherever possible; the Council's Financial

Rules need to be fully supported and adhered to. The forthcoming Management restructure will need to ensure that it will be capable of achieving the requirements of the forthcoming Financial Management Code.

(v) The Council has a very good record of identifying and achieving savings over the last 10 years. The Council has again identified large spending reductions for 2020/21, which combined with the need to achieve PIER savings identified in prior years, transformation of existing services, a significant reorganisation, and the need to make further savings present serious challenges for the Council to achieve in a short timescale. Should some of these savings not be achieved in the timescales required there will be a greater call on the Council's reserves than already identified in this report.

Consultation

198. The draft Corporate Plan and Budget being the subject of consultation (from Friday 10 January 2020). The closing date for comments (Friday 7 February 2020) being after the dispatch of the Cabinet agenda and therefore any comments received are reported verbally to Budget Cabinet on 10 February. Comments received from the business community, voluntary and community sector organisations and the Overview and Scrutiny Committee meeting being included within the Corporate Plan report elsewhere on the agenda.

199. The full Council meets to set the budget on 19 February 2020.

Equalities and Community Cohesiveness

200. The equalities implications of the proposals included in the draft budget and corporate plan are set out in Appendix K2. Members are reminded that they are under a duty to give due regard to considerations of equality when making decisions regarding the Budget and Corporate Plan, (Equality Act 2010).

201. As with the consultation feedback set out above, if any information is submitted as part of the consultation which requires a revision of this assessment, this too will be made available to Members at the Budget Cabinet meeting.

Risk Management

202. Numerous risks are highlighted in this report, and further comment is made below. The risks include reduced government funding, enhanced demand for Council services, delays in asset disposals. There are continuing risks surrounding the funding and employment of staff delivering housing benefits over the next few years. The Council must further prioritise its objectives and identify where it will need to make even greater savings to balance the budget in 2021/22 and beyond should there be a poor settlement or risks identified emerge.

203. Given uncertainty in the economic outlook and the continuing reductions in government funding the Council needs to preserve and enhance where possible the existing level of reserves – this report makes strong recommendations for doing so based on future funding projections. The Council also needs to ensure that it continues to invest in its people, its IT services and its commercial assets.

204. The Council must seek to identify further opportunities for contract savings, plus identify, investigate and implement efficiencies, identify income generation opportunities and ensure that potential savings are monitored and achieved. **Where services are overspending, rapid action must be taken in year to ensure that costs are contained within overall**

budgets. The luxury of having reserves available to cover such costs has substantially reduced.

205. The Council maintains risk registers for corporate risks and for individual services. These must be updated and reviewed on a more regular basis and steps taken to mitigate the risks wherever possible and practical. The transition to a Council with fewer staff and resources poses additional risks.

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

206. (i) **Fair Funding Review & Business Rates retention**

External funding in terms of the government's spending round announcement in September 2019, Spending Review 2020 (SR20), the retention of business rates in 2020/21, and the Fair Funding Review (with new grant funding regime in place from 2021/22).

The move to 75% retention (from the current 50%) in 2021/22 passes on the additional risks of volatility to councils – the implications will be very much in the detail, which is awaited.

Business rates in the meantime continue to present real uncertainties. Volatility in income streams arising from both local and national economic pressures, the level of successful rating appeals, and the collection rates achieved. The appeals provision within the Council's accounts amounted to some £3.955m at 31 March 2019 of which HBC's share is some £1.582m. Rateable values, following appeals have declined in 2019/20 with the consequent impact on income.

(ii) **Income Generation** (including the preservation and enhancement of existing Income Streams)

The Council has been seeking to grow its income streams considerably. New initiatives need proper and effective governance arrangements and business cases need to be robust. Due diligence needs to be undertaken thoroughly, including complex financial and taxation implications, and often within restricted timescales.

There remains considerable pressure on existing staff and prioritisation of work is required. The potential impact on the authority should things go wrong needs to be considered prior to the approval of individual schemes, along with potential exit strategies.

(iii) **Existing Services - Increased Demand**

Increased demand for public services – homelessness and temporary accommodation. It also remains of critical importance that budget managers retain sufficient capacity to manage their services and the budgets delegated to them when new initiatives are being implemented. Careful monitoring and regular review of existing initiatives is also required e.g. selective licensing, social lettings agency, energy, temporary accommodation. Each of these has financial repercussions if business plan objectives are not achieved.

Sufficient oversight and review must be maintained on existing high priority services and areas where demand is increasing.

(iv) **Staffing / Knowledge Management**. The loss of key staff through early retirement or redundancy. The impact of illness on a smaller organisation can be more acute.

(v) **Welfare Reform (Universal Credit and Council Tax Support).** There is a significant financial risk of increased Council Tax support payments being made in the year should the economy falter– the financing risk falling on the Council. The Council will investigate a new scheme for 2021/22 with all the implications this has on the local community and the Council in devising the scheme.

Localisation of Council Tax – funding for Council Tax Support having been reduced by 10% and Councils are now maintaining their own schemes. The Council is not proposing any change to the scheme for 2020/21 – which will increase the cost of the scheme by some £250,000 p.a. of which Hastings BC will bear an additional £35,000 (estimated).

Universal Credit arrangements continue to change with more cases, and particularly the more complex cases falling on the shoulders of the Council. According to the DWP timetable the transfer of existing working age claimants to Universal Credit is still expected to be completed by 2022.

In the meantime benefit administration grant continues to be reduced by government.

(vi) **Restructuring Costs.** In order to make savings of the magnitude required in the future, the Council will need to further reconsider what services it can provide and to what level. The continued transformation and digitalisation of services continues and further restructuring seems inevitable. Voluntary and/or compulsory redundancies have large financial consequences for the authority, both in terms of direct payments but also generally on the Pension Fund - in addition to the effect on the capacity of the organisation and knowledge management implications. The Council established a Redundancy Reserve as part of the budget setting process in 2011/12 which has been added to when possible (Balance at 31 March 2019 was £573,000). This reserve is inadequate to meet the redundancy costs in 2019/2. The reserve needs to be added to in order to meet the expected additional costs of transformation in 2020/21 and beyond.

(vii) **PIER savings.** The identification of new, and realisation of already identified, savings will be critical for the Council to achieve a sustainable budget in the future.

(viii) **Treasury Management** – borrowing costs, investment security and level of returns. The management of the Council's debt portfolio and its assets becomes increasingly important – especially in a rising interest rate environment.

(ix) **Potential Liabilities**

(i) **NHS Foundation Trust High Court Case** – The NHS and their agents have been pursuing a case in the High Court with regards applications for mandatory rate relief on the grounds of, in the first instance, foundation trusts being charitable organisations. A preliminary hearing was held on the 4th November and the decision given on 12th December 2019.

The case in question was Derby Teaching Hospitals NHS Foundation trust and 16 others Vs Derby City Council and 44 others and the Charity Commission for England

and Wales.

The view of the High Court is that Derby Teaching Hospitals NHS Foundation Trust is not a charity for the purposes of S43(6) of the Local Government Finance Act 1988, which means that mandatory rate relief is not appropriate. The full decision runs to 28 pages. The cost to the Council had it been successful amounting to some £4.3m, with an ongoing loss of revenue of some £350,000 p.a. The Council's share of the £4.3m would amount to some £1.9m (44%).

This is a very welcome decision ,but at the time of writing it is not known whether they will seek to appeal further (albeit permission denied by the high court). As such we may see this issue continue for some time to come.

(ii) **Cliffs** – A further £100,000 has been allocated from the renewal and repairs reserve for additional works in 2020/21. Further costs are expected to arise once further clearance and repair work is undertaken and additional monies are included in the budget for 2021/22. The Renewal and Repairs reserve cannot sustain this level of expenditure for long.

(x) **The Economy** – The economic and financial uncertainty surrounding Brexit and the trade agreements will be a major risk for some years. The Council relies upon its income streams to provide services.

(xi) **New Legislation** – changes in the Housing Act, changes in the waste directive on recycling targets for example are all likely to impact on the Council's activities over the next four years.`

(xii) **Pension Fund** – The performance of the fund and the actuarial revaluation – new rates apply from 2020/21 which are marginally higher. The period between reviews may also change. The overall funding position has improved markedly over the last 3 years much to the credit of ESCC and the pension fund managers.

(xiii) **Contract Awards** – The Council does rely on external service providers; it is particularly reliant on external IT and software companies. Effective due diligence in the award of contracts remains critical to the effective provision of Council services.

(xix) **Land charges** – The transfer of key parts of the service to the land registry by 2022 will result in the loss of income – which continues to fall significantly as more searches are conducted privately.

Economic/ Financial Implications

207. The report supports the alignment of corporate priorities with available resources, and produces a balanced budget for 2020/21 (albeit with significant use of reserves).

208. The financial implications in 2020/21 and beyond are detailed in the report. However, significant further action by the Council will be required to produce a sustainable budget beyond 2020/21 and this may result in more job losses and service cuts.

209. The economic regeneration of the town remains a key priority for the Council. The ability to work with partners to help stimulate the local economy continues but will be seriously reduced in the future with the reductions in our funding. There are however a significant number of projects forthcoming within the capital programme to assist the continuation of the regeneration of Hastings.

210. The budget strategy continues to identify the risks of reduced funding levels from government for the next few years. Income streams are being re-profiled, but remain at significant risk. There are additional cost pressures in terms of Waste and Street Cleaning contracts (full year cost implications), growth in terms of the Council Tax Reduction scheme, volatility on business rates, and particularly the higher costs of temporary accommodation, inflation and wage settlements.

211. The Council's reserves are approaching the minimum level recommended. The cost of redundancies looks set to exceed the funds available within the remaining Redundancy Reserve. The additional costs falling on the General Reserve.

Organisational Consequences

212. The Council has exhausted available reserves to support the budget if it wishes to continue to fund an ambitious corporate plan. To stand a chance of achieving a sustainable budget in the future, staffing reductions have regrettably to be made and priorities must be reassessed. The consequence is that besides staff reductions others must be redirected, at least temporarily towards priority areas.

213. There will inevitably be consequences from time to time as this process continues given the substantial savings the Council is required to make and the uncertainty that still surrounds future funding. The Council seeks to minimise the impact wherever possible through redeployment and voluntary severance.

Anti-Poverty

214. The recommendation to full Council is that the Council Tax Support scheme remains unchanged save for the updating of allowances/deduction in line with national changes. The draft scheme continues to provide 100% support for those claimants most in need and hence helps to protect some of the more vulnerable households in the community. The overall costs to the scheme are estimated to be at an increased cost in 2020/21 – some £35,000 p.a. to Hastings BC alone.

Equalities and Community Cohesiveness

215. An assessment of equality impacts on the budget reductions is set out in Appendix K2 and will be considered as part of the consultation process.

Consultation

216. The 2020/21 budget proposals will be consulted upon from the 10 January 2020 and will be considered by Cabinet on the 10 February 2020 and determined by full Council on 19 February 2020.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Budget Consultation	Draft Budget Papers published 10 January 2020	Consultation Closes 7 February 2020	Chief Finance Officer
Budget Cabinet		10 February 2020	Chief Finance Officer
Budget Council		19 February 2020	Chief Finance Officer

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Policy Implications

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

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues & Climate Change	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	Yes
Anti-Poverty	Yes
Legal	No

Additional Information

The Appendices and supporting documents are also available from the Council's website under the heading of Hastings Borough Council budget
http://www.hastings.gov.uk/decisions_democracy/transparency/budgets_finance/

Officer to Contact

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