APPENDIX A

Medium Term Financial Strategy 2020/21 to 2023/24

Purpose of the Strategy

1. The Council manages its finances by matching Council priorities to funding across the medium term. Unfortunately, with the impact of the Covid-19 crisis, continued funding cuts, and increased cost pressures from Temporary Accommodation the Council must make further cuts in order to balance the budget unless significantly more funding is forthcoming.

2. The annual budget cycle refines the process for the immediate year ahead (2021/22) and determines the most appropriate use of available resources as well as setting the Council Tax for the borough.

3. The government's deficit reduction programme continues to result in significant and ongoing reductions in funding for the Council. These reductions, since 2010/11, have led to government funding reducing by some 70% to date. The medium term plans and budgets have all made it plain that the Council's ability to carry on providing the level of services it does is severely jeopardised given the level of external funding and diminishing reserves

4. This year (2020/21) was to have seen wholesale changes in the way in which local authorities were funded. The Fair Funding Review (the level and distribution of the monies between Councils) has been postponed until 2021/22. Likewise, the promised 75% retention of business rates from April 2020 has been delayed to 2022/23 at the earliest. The New Homes Bonus Scheme was due to end in 2019/20 but was extended for 2020/21- no announcement has yet been made on what, if anything, will replace it.

5. There is also uncertainty as to the percentage increase in Council Tax that will be permitted from April 2021– let alone in the years beyond.

6. It was announced in July 2020 that the government's Spending Review (the division of the government's overall pot) which was due to start in the summer of 2019, will take place and the results announced in the autumn of 2020: This is still to take place despite a further spike in Covid-19 cases and the autumn budget being cancelled. In addition, there may be a white paper (possibly next year) which will, it is understood, look at the potential for devolving greater powers and budgets along with Local Government reorganisation.

7. The level of uncertainty around future funding makes it very hard to produce meaningful projections. The local government settlement is generally announced a few days before Christmas leaving little time for meaningful budget planning.

8. The Council was already in a most challenging financial period – and with the Covid-19 crisis it is increasingly so. This Strategy seeks to identify the deficits in future years on the basis of the best information available at the time and recommends that options for

reducing costs be compiled in readiness for the budget setting process. This will entail having a number of options for inclusion/ exclusion within the Corporate plan – and/ or items that can only proceed subject to sufficient resources/grants being identified during future years.

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

10. The use of reserves to fund the Covid-19 crisis is expected to have significantly depleted reserves to the point where it is at, or below, the absolute minimum level that it should hold. This would leave nothing to fund the upfront costs of schemes and expenditure that cannot be capitalised e.g. future cliff works, feasibility studies.

11. Even if the Council balances its budget for 2021/22 unless there is a degree of clarity and certainty for at least a significant part of the Council's funding stream in the years ahead the Council will need to prioritise its expenditure on the assumption of continued reductions in funding. It is understood that last year the MHCLG were looking at a implementing a safety net where councils experience year on year funding reductions of greater than 5%p.a.

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

Background

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

14. The Financial Strategy is the first stage in the annual business planning process. A later stage, the budget process, will examine the financial implications of any revisions to corporate plan objectives and match these to available resources to define a Council-wide budget requirement in early 2021. The corporate planning process ensures there is integration of all key strategies and the policies of the Council.

15. The Council has experienced funding reductions of over 72% between 2010/11 and 2020/21 on a like for like basis. The government's autumn Spending Review is expected to give details of spending plans for the year ahead and given the scale of the national deficit and exit from the EU the funding reductions are expected to continue.

16. Health, schools and development assistance have been protected which means that the cuts in Departmental Expenditure Limits (DEL) have fallen disproportionately on the

remaining public services including local authorities. This policy is not expected to change significantly.

17. This strategy assumes that 2021/22 will result in a standstill settlement for local authorities, ahead of a future Fair Funding Review - possibly in 2021/22.

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

Strategic Priorities

19. The Council's strategic priorities were reviewed for 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.

20. The priorities are:

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

21. The Corporate plan will need to be reviewed for 2021/22 against the background of Covid-19, reductions in grants and the continuing demand pressures – particularly around homelessness and temporary accommodation requirements.

22. The Council has had a good track record of achieving its objectives and improving performance, but inevitably there are now project delays and changed priorities. Albeit there are significant funding reductions the Council should still be well placed to deliver a significant programme in 2021/22 but may need to substantially refine its priorities given what looks to be inevitable funding reductions. Significantly reduced resources will inevitably impact on service delivery in the years ahead.

Key Principles of the Medium Term Financial Strategy (MTFS)

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

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

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

(ii) Maintain a sustainable revenue budget

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

Whilst the principle remains sound the Council had consciously strengthened its reserves, knowing that these would be required to ease the transition to a lower spending Council and to meet key corporate priorities. The Council has required the use of these reserves to achieve balanced budgets in 2018/19, 2019/20 and again in 2020/21. Reserves will fall below minimum recommended levels if they are required to balance the 2021/22 budget unless additional funding is received, or significant expenditure reductions are made.

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

(iv) Continue to identify and make efficiency savings

Each year there is a thorough examination of the Council's "base budgets" to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews – PIER). The Council established an Invest to Save Reserve to assist in this regard.

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

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

Resources will be allocated to invest in the Council's assets to ensure they support the delivery of corporate and service priorities. Resources will, if available, finance invest to save schemes to help modernise and improve services and generate efficiencies in the medium term.

(vii) Ensure sufficient reserves are maintained.

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

(viii) Ensure value for money is achieved in the delivery of all services and that the Council seeks continuous improvement of all services.
It should be noted that the report produced by the Council's external auditors in on the 2018/19 final accounts gave a positive opinion on the Council's provision of value for money services.

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

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

Local Government Spending Control Totals

24. The Chancellor's November 2020 autumn statement is expected at best to produce a standstill budget for local authorities i.e. comparable funding to 2020/21 except for continued reductions in New Homes Bonus and some recognition that Council's will continue to face reductions in business rate and Council Tax receipts in future years as a result of Covid-19 and subsequent expected increases in the levels of unemployment.

25. The grant settlement figures provide details of the Revenue Support Grant and the levels of Business Rates that the government expects councils to retain – the two figures combined make up the Settlement Funding Assessment.

Summarised Grant Position

26. 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).

27. If there is a Fair Funding review undertaken in 2021/22 (implemented in 2022/23) and resources are 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%. New Homes Bonus is set to end and Benefit Administration grant to decrease very significantly in the years ahead as the country moves towards Universal Credit and away from housing benefit.

28. **This loss of grant when combined with the additional costs from inflation, pay increases and demand pressures present the Council with significant financial and resource challenges**. 2021/22 will see the full year effects of the increased costs in providing the Council Tax Support/Reduction scheme following Covid-19, as well as the full year impacts from lower business rate and Council Tax collections.

FINANCIAL CONTEXT - The National Economic Climate

29. Bank base rates were reduced to 0.1% in March 2020 and could even turn negative in the months ahead. Base rates are not expected to increase for several years.

30. Inflation (CPI) amounted to 1% in July 2020 (RPI was 1.6%) and is expected to remain low for some time.

31. Last year the Medium Term financial strategy stated

    "There remains much uncertainty around the Brexit negotiations, consumer spending levels and business investment, let alone the world economy and trade wars. In this context it is not possible to be confident about how strong growth and inflationary pressures will be over the next few years, and therefore the impact on employment levels (and those claiming benefit), inflation (and what we have to pay on our contracts and staff salary increases) and investment / borrowing costs (given no certainty on base rates)."

    The same statement applies but uncertainty is amplified as a result of the Covid-19 crisis and the uncertainty of future implications.

32. In determining the Medium Term Financial Strategy, the impact of the economic climate on the Council has to be considered. As a result of all these uncertainties, once again no general allowance can be made for any uplift in the Council's income streams in terms of volumes, although individual income streams are being critically reviewed. Likewise, if there is a prolonged decline in the overall economy then benefit numbers are likely to increase and likewise inflationary pressures. These factors will impact negatively on the Council's financial position for potentially many years to come.

Risks and Opportunities

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

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

    - Business Rates Retention Scheme – the new funding regime that was introduced on 1 April 2013 whereby Councils retain an element of business rates and any growth (or reduction) – this has increased volatility and risks for Council funding. The local retention of business rates presents real risks to the authority should rate income decrease, but likewise provides the Council with an incentive to increase the business rate base and the level of business rates being collected. The future move to 75% retention (from the current 50%) passes on the additional risks of volatility to councils. There may well be no growth in business rate income for some years and business rates are themselves under national review.

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

Excluding multiple appeals there remains some 76 appeals which relate to the 2010 rating list with a rateable value at risk of some £10.1m, and many date back to the start of the list.

- Council Tax Support Scheme – the Council is not proposing any change to the scheme for 2021/22 – the cost of the scheme could increase very significantly should unemployment double and more people become eligible.

- Security of income streams

- Increased demand for public services – homelessness and temporary accommodation

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

- Pension Fund Performance and changes to the national scheme

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

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

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

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

- The Council continues to look at opportunities for income generation/cost reductions. The level of investment both in terms of commitment, resources and particularly new borrowing is significant. Additional controls on borrowing are expected to be placed on local authorities by government very shortly.

- The risks of a long lasting recession in the economy are greater at present given the levels of uncertainty around Covid-19, Brexit, trade wars, etc.

Council Tax and Business Rates

34. In determining the actual level of Council Tax for 2021/22 the Council will need to take into consideration the government's referendum principles which for 2020/21 were based on the requirement to hold a referendum for increases that were above £5 as well as exceeding 2% or above. This MTFS assumes a 1.99% increase in Council Tax for 2021-22. Each 1% increase in Council Tax yields approximately £69,000.

35. The tax base for 2021/22 is estimated at 3% lower (net) for the purposes of producing this strategy. This is mainly due to the expected increase in the level of Council Tax Support being claimed. The effect would be to decrease the tax base from 26,197 to 25,411 (a loss of £213,000 p.a. to HBC alone). The actual impact of increased unemployment levels may be greater still and will only be known as and when people come off a furlough scheme and people's savings fall below the threshold level.

36. The MTFS assumes a deficit of £50,000 on the Council's Collection Fund in respect of Council Tax. Likewise, a deficit in respect of business rates income is expected - mainly caused by the high level of successful rating appeals. An estimated deficit of £100,000 has currently been included in the strategy but this figure could be amended significantly before the year end.

Funding from Business Rates (2020-21)

37. The government launched the Business Rates Retention (BRR) scheme on 1 April 2013 as one of the main forms of local government funding. Instead of a single grant the Council receives Revenue Support Grant (RSG) and monies from Business rates (an assessed Business Rate Baseline Funding level - expressed as Baseline Need). The two figures effectively made up the Settlement Funding Assessment (SFA). The government calculated a notional business rate figure they believed each Council should collect, although ultimately it is the actual level of business rates collected that determines the total funding received.

38. The business rate, itself, is set by the government with regard to the change in the Retail Prices Index. The proportion retained in Hastings for 2020-21 is 40% (9% is payable to ESCC, 1% to the Fire and Rescue Authority and 50% to the Government).

39. Under the current scheme 50% of business rates is localised through a system of top-ups and tariffs that fix an amount to be paid by high yield authorities and distributed to low yield authorities – this amount being increased annually by inflation (CPI). Local authorities retain a proportion of all business rate growth or conversely experience a reduction in resources if the business rate base declines. The 50% central government share is distributed through the annual local government settlement process – thus enabling the government to control the overall amount received by local authorities.

40. Businesses see no difference in the way the tax is set. Rate setting powers remain under the control of central government and the revaluation process remains the same – save for a new revaluation every three years.

41. Where there is disproportionate growth this is used to provide a safety net for those authorities experiencing little or negative growth and allow the treasury to top slice business rates income. A reset mechanism is in place - the first reset was due in 2020/21 (now overtaken with the Fair Funding review). The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

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

Business Rates - Pooling (2020/21) and 2021-22

43. For 2020/21 the Council, along with the East Sussex County Council, all East Sussex Boroughs and Districts, and the Fire Authority, are in a pooling arrangement. This means Councils retain 50% of any business rate growth but are also impacted by losses.

44. The question, when writing this strategy is what will now happen for 2022-23, given that the government have indicated that the current arrangements will be extended into 2021/22 – the business rate retention level of 75% is not being introduced.

45. The government after determining the business rates baseline levels included small business rate relief within its own budget proposals. This effectively reduced Councils' income. The government is reimbursing authorities for this lost income - estimated at £1,564 in 2020/21. An inflationary increase of 1% has been allowed for in 2021-22 and each year thereafter.

46. The rateable value (RV) of business properties at the start of the 2020/21 year was forecast to be some £62.5m (some £201,000 lower than 2019/20). However, given the level of appeals and businesses in trouble, forecasting income levels for 2021/22 and beyond remains challenging. Business rates and the levels of appeals/ growth/ decline has been highlighted as a real risk yet again and will continue to impact significantly on the Council's level of funding. It is one of the key risks that the Council faces in terms of income volatility.

47. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council was due to collect some £21.16m in 2020/21of which the Council share was some 40% (£8.463m 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 being some £2.771m. Following major changes to business rates and reliefs due to Covid-19 the government are funding the Council directly with some £12m of monies that it would have otherwise had to collect.

48. The projections for 2021-22 could be overly optimistic in the event of a severe recession, and the rating revaluations that was due to be implemented by government

in April 2021 has now been postponed.

49. The Council is required to make an annual assessment of the income it expects to collect from Business Rates, and to provide these figures to government, East Sussex County Council and the Fire and Rescue Authority who each receive a share of the actual rates collected; At present this remains very challenging given the much lower collection levels (down some 7.4% in July 2020).

Income and additional costs

50. The Council now has limited reserves and remains reliant upon income streams and investment returns to balance the budget. Given the Covid-19 impact rental streams have been under considerable pressure e.g. Priory Meadow. This is expected to continue for some years.

51. Given that income streams remain at risk, fees and charges are kept under careful review and are considered annually against the background of Council priorities, the local economy and its needs, and people's ability to pay.

52. For 2021-22, with a number of exceptions, fees and charges will be considered against market fees, and increased as a minimum by the retail price index - except where set by statute. The majority of planning fees are determined nationally by government.

Income Generation

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

54. The Council has stepped up the level of income it is receiving from property and is looking to diversify its income streams further e.g. from energy.

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

Acquisitions/lettings	Est Income/Rent Saved- 2019/20	MRP and Interest 2019-20	Net Additional Income 2019-20		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					93,611
Lacuna Place	427,126	355,737	71,389		250,049
Heron House	190,000	107,952	82,048		82,048
Property Fund	85,000		85,000		85,000
Totals	**2,380,700**	**1,524,596**	**856,104**		**1,139,629**

56. The Council's future income generation plans involve both capital and revenue expenditure. The Council is able to borrow for capital expenditure but must determine its overall borrowing limits prior to the start of the financial year. It is unable to borrow purely for yield (profit). The purpose of setting borrowing limits is to ensure that the borrowing costs are prudent and affordable when determining the budget. It is able to vary them within the year, but such decisions can only be taken by full Council.

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

Investment and Borrowing

58. The relatively low levels of interest received on investment balances looks set to continue. Base rates were reduced in March 2020 to 0.1% and could potentially even turn negative.

59. The Brexit factor makes forecasting difficult. Inflation does not look set to increase significantly and interest rates are not expected to be increased for a couple of years. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review. Investment returns for the purpose of the MTFS are estimated at 0.5% overall.

60. The Council has had significant additional borrowing requirements in recent years and continues to have an ambitious Capital programme. The Capital expenditure agreed as part of the February 2020/21 budget would increase borrowing to levels to some £105m by the end of 2022/23. This would increase annual borrowing costs substantially as well as the amount required to be set aside each year to repay this debt (the Minimum Revenue Provision). The costs appearing in the MTFS are estimates of the expenditure now likely to be incurred and will need to be refined in line with a revised Capital programme if and when agreed in February 2021.

Inflation

61. This had not been a major issue over the last couple of years. In July 2020 it increased to 1.6% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 1.0% (up from 0.6%). Inflation (CPI), according to the government's Monetary Policy Report (August 2020) is expected to be below the 2% target and average around 0.25% in the latter part (of the year August 0.2% CPI) largely reflecting the direct effects of Covid-19. These include the impact of energy prices and temporary cut in VAT for hospitality, holiday accommodation and attractions. As these effects unwind, inflation rises, supported by a gradual strengthening of domestic price pressures as spare capacity diminishes. In the Monetary Policy committee's central projection, CPI inflation is expected to be around 2% in two years' time (1.8% Qtr. 3 in 2021).

62. Based upon the above projections, general inflation is being allowed for at 2% overall for 2021/22 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

63. The salary increase for 2020/21 was agreed in August 2020 and amounted to 2.75% (backdated to April 2020).

64. The figures in the Medium Term Financial Strategy assume a 1% increase for 2021/22 and beyond. In addition, there are contractual increments (equivalent of around ½%).

65. The salaries budget together with national insurance and pension costs amounts to some £14m in 2020/21.

66. The Council remains committed to paying the accredited living wage of £9.30 per hour (for over 18's) and this is set to increase further with new rates being announced in November 2020. The national minimum wage for over 25s is £8.72 – from April 2020, and is set to increase further.

Universal Credit and Benefit Administration Grant

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

68. The impact of the change is a reduction in new benefit claims, an increase in questions and support, and a significant reduction in the Housing Benefit Administration grant receivable in the years ahead.

69. The implications for staff and services is becoming better understood and will necessitate changes to the Council Tax Support scheme if the Council is not to be engulfed in numerous changes of circumstance requests in the years ahead – albeit that this threshold has not yet been reached.

70. It should be noted that the final stage and timeline for converting existing working age Housing Benefit claims onto Universal Credit (to be completed by 2022) remains unclear. 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.

71. The Department for Work and Pensions (DWP) continue to provide some additional funding to the Council. Some of this had been funding external support organisations for those providing debt advice - this is now paid direct e.g. to Citizens Advice Bureau (CAB). 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.

72. The Benefit Administration Grant for 2020/21 was actually increased to £397,789 (from £389,046) – whether current funding levels continue into 2021/22 is as yet unknown.

73. The level of Council Tax Support Administration Grant receivable in 2020/20 was £157,497 (£164,592 received in 2019/20). This represents a reduction of £7,095 (a 4.3% reduction) and further reductions are anticipated for 2021-22. A 4% reduction is estimated for 2021-22.

74. 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.

Council Tax Reduction Scheme

75. In 2013/14 the government paid an upfront grant in respect of Council Tax Support/Benefit, leaving the Council to fund any "in year" increase in demand. In 2014/15 the Council Tax Support Grant was rolled into the Settlement Funding Assessment and thus effectively decreases in line with the annual reductions in government grant funding. The Council determined that the Council Tax Support Scheme would remain the same for 2015/16, 2016/17, 2017/18 and 2018/19. In 2019/20 the Council retained 100% support for those most in need but made various changes to the scheme e.g. limiting assistance to the maximum of a Band D equivalent property.

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

the scheme will be made for 2021/22

77. The projections are that the cost of the scheme could increase from some £10.8m in 2020/21 to some £12.4m in 2021/22, and the deficit identified in this budget report would increase by a further £210,000 (HBC's share of an additional £1.6m p.a. additional cost). If there is severe recession with a doubling of unemployment and with more people claiming benefit the costs could increase beyond this level.

78. The Council Tax Reduction Scheme continues to pose a significant financial risk for the Council as the furlough scheme unravels and businesses assess their staffing needs. The risk being that should claimant numbers increase the additional costs now fall on the Council and its preceptors rather than the government. The Council will need to continue to retain adequate reserves for this purpose as the scheme cannot be amended mid-year.

Priority Income and Efficiency Reviews (PIER) Process

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

The objectives of the process are as follows: -

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

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

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

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

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

81. The scale of the budget savings required to balance the budget on a sustainable basis following Covid-19 is large. The time between the identification and the achievement of savings, as well as income generation, can be significant and the Council will need to be prepared to continue to use a proportion of its reserves to balance the budget and for future invest to save initiatives.

Pension Fund Contributions

82. The Council's contributions to the pension fund managed by East Sussex County Council are determined every three years following an actuarial valuation. A new

valuation was undertaken in 2019 with revised contribution rates becoming payable from April 2020.

83. The actuary 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 represented a significant improvement in the position of the fund within a short space of time. This position may well have changed significantly in terms of the assets given Covid-19 and it is possible that contribution rates will need to be amended from 2021/22 onwards. The valuation of assets and liabilities for 2019/20 final accounts purposes shows a deficit of some £37.226m on the Council's part of the fund as at 31 March 2020.

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

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

85. The reductions in secondary contributions in 2021/22 and the following year were expected to offset the impact of the annual increase in pay on pension costs.

Staffing, Information Technology and Property

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

87. 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.

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

89. 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

90. The Council receives a number of revenue grants each year e.g. New Homes Bonus, Flexible Homelessness Support, Discretionary Housing Payments but has also been very successful in attracting numerous "one off" type grants in the last few years e.g. Rogue Landlord funding, Future Cities, and Active Women Programme, Answers in the

Local Economy (ACE), Hastings Fisheries Local Action Group (HFLAG), Coastal Communities funding.

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

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

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

93. 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 has established a Town Deal Board with its partners; it is receiving £173,029 of funding. The Town Investment proposal to be submitted in the next few months.

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

New Homes Bonus

95. 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 amounted to £199,482 (down from £556,337 in 2019/20 - a funding loss of £356,855 – equivalent of some 5% on the Council tax). There has been no announcement as to whether the New Homes Bonus will continue to be more than just the legacy payments in 2021/22.

96. 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.

97. 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 the number of new properties and an increase in empty properties did not achieve the threshold (an increase of more than 0.4% of the housing stock (0.12% achieved). The number of affordable properties completed amounted to some 90 for which there is a payment of £350 per property

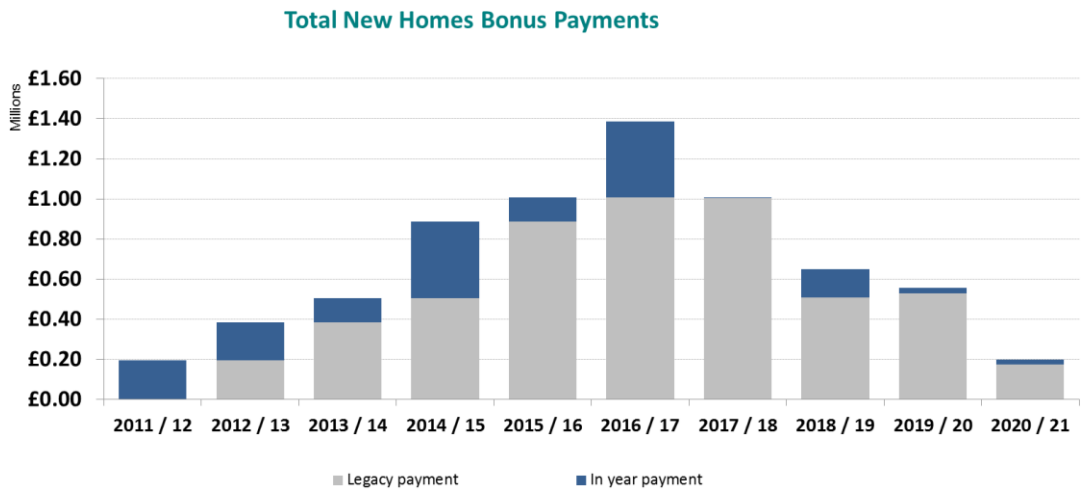
(shared with the upper tier authority); resulting in additional income amounting to some £25,200 for 2020/21. The funding for 2020/21 is a “one-off” with no ongoing legacy payments.

98. 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 award criteria.

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

99. The reduction between 2020/21 and 2021/22 is a funding loss of £30,800. The graph below identifies the funding levels since 2011/12 and the massive reductions since 2016/17.



100. Councils have used the bonus in different ways, either to help balance budgets, strengthen reserves, or for one off activities that do not add to ongoing spending commitments. For Hastings, the money has been fully utilised to help balance the budgets in every year since its introduction, and if there is no replacement scheme this is a severe funding reduction.

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

Indicative Base Budget Position for 2020/21 to 2023/24

102. An Indicative budget forecast for the current and next 3 year period 2020/21 – 2023/24 has been produced (Appendix 1) to reflect the issues raised as part of the review of the MTFS. This is indicative given the uncertainty surrounding the costs of some of the financial pressures and funding levels and the recognition that further work is required to refine these figures before the budget is finalised in February 2021. The forecast does not include any costs associated with additional Capital projects other than those already included within the Capital programme. A 10 year forecast has not been produced given the uncertainties on future funding and expenditure.

Summary of Financial Position

103. When setting the budget in February 2020, forecasts of future deficits were identified. These amounted to £1,182,000 in 2020-21, £798,000 in 2021-22, £698,000 in 2022-23, and £525,000 in 2023/24. However, following Covid-19, Brexit implications, big increases in temporary accommodation costs, revisions to income forecasts, inflation and wage increases, reductions in funding from New Homes Bonus, etc., the deficits look to set to increase substantially.

104. During the last 12 months work has been undertaken to identify further savings, firstly in order to spend less in the year, thus preserving more transition funding to help meet the deficits, and secondly to identify on-going savings for future years.

105. The PIER savings were listed in the February 2020 budget reports (Appendix K) and amounted to net savings of £1,784,000 in 2020/21 with a further £583,000 in 2021/22. Following Covid-19 not all of these savings will be achieved within the projected timescales e.g. sale of assets, management restructure, capital schemes and investment returns.

106. The savings are offset by additional costs (£786,000 in 2020/21).

107. The table below summarises the estimated deficits for the current and next 3 years of £2.7m in 2020/21, £2.3m in 2021/22, £2.2m in 2022/23, £2.2m in 2023/24. The Council had already agreed in February 2020 to use £1.182m of reserves to help balance the 2020/21 budget. These revised estimates do not take account of any in-year savings that may still be achieved, or savings to be identified as a result of reviewing last year’s spending and income streams.

Projection at 28 August	2020-21 Budget £000's	2020-21 Projection £000's	2021-22 Projection £000's	2022-23 Projection £000's	2023-24 Projection £000's
Net Council Expenditure	14,245	15,757	15,210	15,225	15,409
Funding	(13,063)	(13,051)	(12,898)	(12,989)	(13,229)
Shortfall	**1,182**	**2,706**	**2,311**	**2,236**	**2,180**
Use of Reserves	1,182		-	-	-
Estimated Shortfall	**0**	**2,706**	**2,311**	**2,236**	**2,180**

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

Council Tax

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

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

110. In considering any Council Tax increase for 2020/21, 1% on the Council Tax will equate to around £69,000.

111. For 2020/21 the government announced a shire district or borough Council could increase Council Tax by up to 2%, or up to and including £5, whichever is the higher. If higher than this the Council would be required to hold a referendum.

112. The MTFS includes the assumption of a 1.99% in Council Tax for 2021/22 and 1.99% for each of the years beyond.

CAPITAL

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

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

114. The Council's capital programme for 2020/21 and the next 2 years, as approved in February 2020 (reproduced below), amounted to some £47.1m (£34.3m net of grants and contributions). The capital programme will be considered as part of the budget process and decisions taken in the light of available resources.

	Revised 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

115. In 2019/20 the actual borrowing requirement increased by some £9.513m (compared to the revised estimate of £15.395m) and the actual amount borrowed in the year amounted to some £5.27m – taking external debt to £65.30m.

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

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

made to the reserve. It should be highlighted that there continues to be significant works required to the cliffs. A significant element of such works are classed as revenue costs and General Reserves will be required to fund these – or elements thereof for many years to come.

118. The Council's Capital programme remains ambitious. There are in additional a whole series of potential developments in the pipeline. Appendix 2 highlights some of these e.g. new sports and cultural development centre at Bohemia (estimated at some £60m), the development of houses at Bexhill Road, Commercial properties at Churchfields. The ones identified amount to some £101m over the next 5 years or so, and are not all affordable given the unsustainability of the revenue budget, and the limited level of reserves available to meet the cash flow requirements, feasibility studies etc.

119. A revised Capital Strategy will be produced for 2021/22, but the affordability is dependent on the future funding of the Council and achieving a balanced budget. There remains a small amount of flexibility within the current borrowing approval limit for new Capital schemes in 2020/21 where these can be shown to be revenue neutral.

Capital Receipts

120. The Council's land disposal programme for this financial year is budgeted to produce capital receipts amounting to £5.185m in 2020/21 and just £185,000 in future years. Any new capital expenditure proposals would be costed on the basis that they would have to be funded by borrowing.

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

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

Minimum Revenue Provision (MRP)

123. 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.

124. 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.

125. The MRP is set to increase substantially in 2021/22 and beyond as a result of additional borrowing, particularly in respect of economic and regeneration initiatives. The Council's MRP policy is determined by full Council as part of the Treasury Management Strategy in February for the forthcoming year.

126. The table below identifies the estimated Capital Financing Requirement (CFR) for the current and each of the next three years along with the estimated Minimum Revenue Provisions (MRP).

CFR	2019/20	2020/21 (Revised Est)	2021/22 (Est)	2022/23 (Est)	2023/24 (Est)
	£'000	£	£	£	£
CFR - Opening	58,094	66,431	72,458	85,368	83,172
Less MRP	(1,176)	(1,543)	(1,697)	(2,196)	(2,201)
Plus, New Borrowing	9,513	7,570	14,607	-	-
CFR Closing	66,431	72,458	85,368	83,172	80,971
(CFR Excludes leasing)					

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

128. The figures will be refined for the revised 2020/21 budget, based on the proposed Capital programme and timing thereof. For the purposes of the strategy expenditure on commercial property Is not included. The future occupancy levels and therefore values and rentals of both retail and office accommodation are not clear following Covid-19 and as such no expenditure is forecast in the near future. The MRP for 2020/21 is now estimated at some £1.543m (down from the original estimated £1.624m in February 2020).

Reserves

129. The strategic reasons for holding reserves are: -

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

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

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

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

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

130. It should be noted that capital receipts can generally only be used for capital purposes. There is a new flexibility which allows new receipts to be used to meet effectively invest to save initiatives. Capital receipts could also be used to meet the Minimum Revenue

Provision, but this is only a short term expedient. Reserves and movements thereof will be reviewed as part of the budget process.

131. For the purposes of the strategy estimates have been made of expenditure funded from reserves in order to arrive at reserve balances as the end of the current financial year i.e. 31 March 2021. Following Covid-19 the deficit for the year is expected to increase from £1.182m to some £2.7m. The use of an additional £1.5m of the General reserve would reduce the balance to some £4.987m – which is below the £6m minimum level that has been recommended. This final accounts for 2019/20, which are as yet unaudited, may well impact further on the level of reserves that are available.

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

133. The protection of key services remains of crucial importance to the Council and the Transition Reserve, Economic Development Reserve and Community Safety Reserve have provided the Council with the opportunity to protect some key services and activities for this year and the last two financial years.

134. The budget report will advise further on the minimum level of reserves to be maintained in the light of the local government settlement and further impact of Covid-19. Given the future grant losses, the need to transform services on a continuing basis until 2022/23 and potentially beyond, and the need to cope with unexpected events or claims or unexpected income losses, the minimum level of general reserves (un-earmarked) was set at £6m for 2018/19 and again for 2019/20. There remains, along with the potential NHS claim, numerous examples of the need to retain adequate reserves many of which are identified in the risk section of this report. The minimum level of recommended reserves is unlikely to be decreased given recent experiences.

Budget 2021/22 and beyond

135. The levels of future government funding may be clarified in the Spending review in the autumn, but until the fair funding review is completed the uncertainties for individual authorities will remain. This when combined with Covid-19, the future of business rates, Covid-19 and the length and depth of a recession, plus demand pressures e.g. temporary accommodation, Council tax support now necessitate the identification of significant savings for 2021-22 and beyond.

136. To achieve a balanced budget in 2021/22 further savings of some £2.7m need to be identified.

137. The future year projections assume that the Council receives the same or similar funding levels under the Fair Funding Review and the retention of 75% of business rate growth.

138. To achieve a balanced budget in 2022/23 savings of £2.3m in total need to be identified.

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

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

141. The Council must still retain sufficient reserves to meet significant and unexpected expenditure items. The use of General Reserves severely also prejudices the Council's ability to fund any of the major redevelopment proposals it wishes to complete. The use of the general reserve may also be required to fund transformation initiatives and potentially further redundancy costs.

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

143. In view of the reduced resources available in 2020/21 and beyond the Council must continue to review the level of service it can provide and transform the way it delivers those services.

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

Options for Reducing the Deficit

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

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

    a. 2020/21 Budget Review – the 2019/20 budget out-turn review has also not been undertaken as yet and there are under and overspends in some areas. These have to be reviewed as part of the 2021/22 budget setting process with the aim of identifying ongoing savings.

    b. Asset Disposals – The Council has agreed to dispose of a number of sites e.g. Harrow Lane, Mayfield E, Bexhill Road sites and invest the sums received or use them in lieu of new borrowing. The Council will need to review other assets that could potentially be disposed of.

c. Income Generation (Energy) – studies need to be completed and if viable there may be the potential for income streams to be generated.

d. Transforming Services/ Sharing Services/Resources – Whilst there are currently no plans for local government reorganisation in East Sussex a white paper is expected in the autumn. The continuing need for savings may necessitate further review of existing arrangements between authorities whether there is a formal reorganisation or not. Likewise, the transformation programme within the Council needs to be progressed as quickly as practically possible given the range of priorities.

e. Council Tax Reduction Scheme – The increasing annual cost of the scheme will need to be considered by the Council and options considered to reduce it. Most Councils have had to reduce the level of support to some degree – although this Council has managed to maintain some 100% support levels for longer than the other East Sussex authorities. The Council consults on any changes. For 2021/22 the Council will not be proposing any changes to the scheme. This has consequences for ESCC, the Police and Crime Commissioner, Fire Authority and Hastings BC.

f. Discretionary Rate Relief – the Council has to provide notice to recipients if it is to change the existing scheme. The Council may well wish to consider reviewing the scheme within the next 12 months for 2022/23 given the budget position.

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

147. There remain many areas of potential additional cost. in the economy on interest rates/ inflation flowing from Brexit uncertainty, the Council Tax reduction scheme (volatility thereof), plus the NHS claim for charitable rate relief. Risk management is expanded on below.

Risk Management

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

149. Given the long term uncertainty around Covid-19, in funding and greater volatility in income streams and expenditure the Council needs to take every opportunity to strengthen reserves e.g. to cover for longer void periods, spikes in Covid-19 etc, and

other unforeseen events.

150. The Council needs to continue to invest in its people, its IT services and its commercial assets. The Council continually seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, the level of service in contract specifications, identify income generation opportunities and ensure that potential savings are monitored and achieved.

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

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

i. Government funding, including the New Homes Bonus grant

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

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

iv. Income Streams – preservation and particularly enhancement

v. Joint working/ shared services.

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

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

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

viii. Restructuring Costs

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

ix. Treasury Management

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

x. The Economy

The economic and financial instability in the world continues to be major risk and greater uncertainty exists as Brexit approaches.

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

xii. Reserve Levels

Should the government's annual funding settlement be poor, the Council may well be operating in 2021/22 with reserves below the minimum recommended levels given that the necessary savings can not be made within short timescales available.

xiii. Land Charges – responsibilities are being transferred. By 2022/23 the Council could lose the majority of its income in respect of this service.

xiv. Demand Pressures – Covid-19, Temporary Accommodation

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

Equalities and Community Cohesiveness

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

Climate Change

155. The Council's budget does not contain separate budgets to tackle Climate Change, other than the Sustainable Energy and Development budget and the funding for the Sustainability Policy Officer. There are numerous Council initiatives that currently contribute towards reducing the impact of Hastings and its residents on climate change. All initiatives and plans need to be considered in the production of the Council's corporate plan for 2021-22 and the financial resources available.

Consultation

156. The 2021/22 budget proposals will be consulted upon from the middle of January 2021 and will be considered by Cabinet on the 8 February 2021 and determined by full Council on 24 February 2021.

Contact Officer: Peter Grace, Chief Finance Officer,

Email pgrace@hastings.gov.uk

APPENDIX 1

Revenue Budget Forward Plan

Ref	Revenue Budget Forward Plan	2020-21 Budget £000's	2020-21 Projection @ 27.8.20 £000's	2021-22 Projection £000's	2022-23 Projection £000's	2023-24 Projection £000's
	Projection at 27 August 2020 (assuming no severe recession, or funding reductions)					
1	**Net Service Expenditure**	**12,000**	**12,000**	**12,440**	**12,889**	**13,347**
2	**Budget Variations**					
3	Election Costs (bi-annually)		(70)	70	120	0
4	Pay Increase (2.75% as against 2.5% budgeted)		30			
5	**Covid 19 related Costs/ Loss of Income**					
6	Community Hub/ PPE/staffing (net addn costs)		100			
7	Temporary Accomodation/Homelessness		980	980	980	980
8	Sales, Fees, Charges		1,720			
9	Sport Centres		328			
10	Property - Rental Income reductions		500	400	300	200
11	Delays in Project Completions & Regeneration schemes (PIER)		120	120	120	120
12	Interest on balances		40	75	75	75
13	Delays in Asset Sales - Loss of Interest/Addn costs (PIER)		75	150	50	50
14	Senior Management Restructure - Partially completed (PIER)		50	0		
15	Freedom Leisure - contract extension		30	(30)		
16	Furloughed Staff		(53)			
17	**Addional Covid-19 Funding - Grants**		(1,208)			
18	**Addional Covid-19 Funding - Income Support**		(803)			
19	**Previous PIER savings**					
20	Theatre - reduced contributions PIER)			(100)	(200)	(200)
21	Revenues and Benefits(PIER)				(40)	(40)
22	Community Partnership Funding (PIER)			(156)	(156)	(156)
23	PIER savings - Other			(225)	(274)	(274)
24	Income - Commercial Property			(385)	(410)	(410)
25	Income - re Capital Projects (Matching costs)		(53)	(372)	(985)	(985)
26	Fees and Charges			(60)	(120)	(180)
27	**Other:**					
28	Contingency Provision	300	300	300	300	300
29	Interest (net of Fees) & other Adjustments	1,568	1,375	1,552	1,626	1,628
30	Minimum Revenue Provision (excl. Inc Gen Adj)	1,624	1,543	1,697	2,197	2,201
31	Contribution to Reserves	722	722	722	722	722
32	Net Use of Earmarked Reserves	(1,969)	(1,969)	(1,969)	(1,969)	(1,969)
33	**Net Council Expenditure**	**14,245**	**15,757**	**15,210**	**15,225**	**15,409**
34	Taxbase - **Covid-19**	26,197	26,197	**25,411**	25,665	25,922
35	Council Tax	270.78	270.78	276.17	281.66	287.27
36	**Funding**					
37	From Collection Fund - Council Tax-**Covid-19**	(7,094)	(7,094)	**(7,018)**	(7,229)	(7,447)
38	From Collection Fund - Business Rates - **Covid-19**	(2,771)	(2,771)	(2,771)	(3,786)	(3,823)
39	Revenue Support Grant- **Covid-19**	(1,004)	(1,004)	(1,014)		0
40	New Homes Bonus	(199)	(199)	(168)	(26)	0
41	Council Tax Support Admin Grant	(157)	(157)	(151)	(145)	(139)
42	Housing Benefit Admin Grant	(398)	(398)	(398)	(398)	(398)
43	NNDR (Surplus) / Deficit - **Covid-19**	188	188	**112**	**100**	**100**
44	NNDR Pooling-**Covid-19**	(12)	0	0	0	0
45	Business Rates Section 31 Grant (not adj. £12.3m)	(1,564)	(1,564)	(1,580)	(1,596)	(1,612)
46	Council Tax (Surplus)/Deficit - **Covid 19**	(50)	(50)	**90**	90	90
47	**Contribution To General Fund**	**(13,063)**	**(13,051)**	**(12,898)**	**(12,989)**	**(13,229)**
48						
49	**Funding Shortfall / (Surplus)**	**1,182**	**2,706**	**2,311**	**2,236**	**2,180**
50						
51	**Use of General Reserve**	(929)	0	0	0	0
52	**Use of Transition Reserve**	(253)	0	0	0	0
53						
54	**Net Funding Shortfall / (Surplus)**	**0**	**2,706**	**2,311**	**2,236**	**2,180**

Key Assumptions

Line 1 General Inflation has been assumed of 2% for 2021/22 and beyond – but only applied to contracts. Wage inflation: 1% assumed for 2021/22 and beyond plus ½% p.a. representing contractual increments.
Line 3 Local elections – the costs are budgeted for in 2021/22 (shared costs).
Line 4 Pay increase agreed at 2.75% for 2020/21
Line 6 Additional costs due to Covid-19 – community hub/PPE etc.
Lines 7 Additional temporary accommodation costs – Budget Growth (may be higher)
Line 8 Loss of income from sales, Fees and charges (Significant uncertainty)
Line 9 Additional expenditure on supporting Leisure centres (Capped level of support)
Line 10 Assumed recovery in rental income – upward only increase
Line 15 £30,000 payment due for 2020/21 to be paid in 2021/22
Line 16 Staff furloughed - costs recovered
Line 18 Income Compensation Scheme – early estimate
Line 26 Estimated increase in Fees and Charges (above the 2% in the net budget)
Lines 20 to 25 – Additional Savings identified (excluding review of 2019/20 outturn and 2020/21 budgets).
Lines 29 to 32 Funding adjustments and reprofiling of expenditure against base budget.
Line 34 Recalculation of the taxbase. Assumes a 3% decrease due mainly to increases in the amounts paid out in respect of the Council Tax Support scheme.

Line 35 A Council Tax increase of 1.99% for 2021/22 and for future years has been included for the purposes of this Strategy.

Lines 36 to 46 Funding: The Spending Review and local government settlement are expected in late autumn. No increases or decreases in cash terms are expected, save for inflation linked increases in respect of Section 31 payments on business rates – for the purposes of this strategy.

Line 44 Business rates pooling – with other East Sussex authorities including the Fire Authority. The levels of income are projected to decrease in 2020/21and beyond following Covid-19. The timing of the introduction of a new funding regime by government (75% rate retention) has been delayed and will not be in 2021/22.

Lines 51 & 52 The Council agreed to use Reserve to support the budget in 2020/21. The original projected deficit of £1.182m is anticipated to increase to some £2.706m – an increase of £1.524m. This figure to be refined in the revised budget.

Line 54 Funding Gap: the predicted deficits in 2020/21 to 2028/29 assuming all PIER savings are achieved, government funding levels remain the same, income levels are maintained, and there is no recession or inflationary pressures.

APPENDIX 2

Capital Programme - Potential New Schemes

New Developments/Known issues	Financed over (Yrs)	£	Interest Only @2.7% £	MRP £	Total £
Priory Street Car Park - future large scale repairs say £1.4m (2024/25)	10	1,400,000	37,800	140,000	177,800
Cliff works / Repairs (Revenue vs Capital Split??) - Spend over 2 or3 years? Plus £100k p.a. Revenue?	10	1,000,000	27,000	100,000	127,000
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 2 - 35,000 Sq Ft Factory / Separate units	40	4,540,000	122,580	113,500	236,080
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 2 - 35,000 Sq Ft Factory / Separate units	40	(2,000,000)	(54,000)	(50,000)	(104,000)
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 3 - 3 to 8 Factory Units (flexible sizes)	40	2,500,000	67,500	62,500	130,000
Industrial Units - Churchfield Estate (Sidney Little Road):Plot 3 - 3 to 8 Factory Units (flexible sizes)	40	(1,000,000)	(27,000)	(25,000)	(52,000)
West Marina - Ex MOD/ Stamco Site	50	1,500,000	40,500	30,000	70,500
Bexhill Rd - Lower Tier Site £6.9m flood, £28.8m development	50	33,460,080	903,422	0	903,422
Bohemia - Leisure Centre	40	30,000,000	810,000	750,000	1,560,000
Bohemia - Culural Centre	40	30,000,000	810,000	750,000	1,560,000
Dangerous Structures	1	300,000		300,000	300,000
Total		101,700,080	2,737,802	2,171,000	4,908,802

It should be noted that the above list is not exhaustive and excludes a number of areas e.g. DestiSmart Tram, housing on Bohemia site, regeneration plans for town centre.