Report To:	**Cabinet**
Date of Meeting:	**7 February 2022**
Report Title:	Revenue Budgets 2021/22 (Revised) and 2022/23, plus Capital Programme 2022/23 to 2024/25
Report By:	**Peter Grace** **Chief Finance Officer**
Key Decision:	**Yes**
Classification:	**Open**

Purpose of Report

1. This report presents the revised revenue budget for 2021/22 and a budget for 2022/23. The revised budget for 2021/22 takes account of the known variations to expenditure and income streams that have occurred since setting the budget in February 2021.

2. The report identifies that a balanced budget in 2022/23 can only be achieved by using £2.172m of reserves, and that further savings will be required given the relentless increases in homelessness costs in particular.

3. The forecasts for future years show increasing deficits e.g. 2023/24 is £2.654m, in 2024/25 it is estimated at £2.674m, and in 2025/26 it is estimated at £2.665m. The level of grant funding, Council Tax increases and income from fees and charges is insufficient to meet the annual increases in costs e.g. inflation, pay increases, demand pressures.

4. 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.

5. In setting the budget for 2022/23, recognition has to be taken of the uncertainties that exist for the years ahead given the absence of the Fair Funding review (retitled as Review of Relative Needs and Resources). The forecasts included are compiled on the basis of no reductions in external funding from the government in respect of Business Rate retention and Revenue Support Grant in future years.

6. The alignment of the Council's available resources to its priorities requires further, and immediate action to achieve a sustainable budget in the years ahead. Financial rules, operating procedures, and management controls have been strengthened but now need to go much further and be strictly followed to ensure that the Council is in full control of the reducing financial resources and the need to show Best Value.

7. The Cabinet meeting on the 7 February is a key part of the budget setting process. The

full Council meeting on the 16 February 2022 is responsible for setting a balanced budget and determining the Council Tax. Whilst savings of £1.36m have been identified for 2022/23, there are also unavoidable increases in costs that result in further use of the Council's fast diminishing 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 2022/23 of 1.99% which is the maximum permissible without a referendum.

8. Please note that the final grant settlement figures from government have not been received. 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 2022/23. Precept figures will be updated following receipt of the final figures from East Sussex County Council, Police and Fire Authority.

Recommendation(s)

Cabinet recommends that full Council:-

(i) Approve the revised revenue budget for 2021/22 (Appendix A).

(ii) Approve the draft 2022/23 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 is £6m (plus General Fund Balance) and that if reserves look to fall below this level urgent action be taken to limit this and restore the reserves as soon as possible to recommended levels; and that Full Council be advised of the actions being taken.

(v) Approve the Capital Programme 2021/22 (revised) to 2024/25 (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 limited monies in the budget and Reserves for "Invest to Save" schemes be determined by the Chief Finance Officer in consultation with the lead member for Finance

(viii) Agree again that the Council does not seek to undertake any capital project/scheme purely for yield that would prevent the Council from borrowing either commercially or from the PWLB to fund its Capital programme.

(ix) 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.

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

(xi) Agree that, no Council properties or land be disposed of, either by sale or lease, at less than market value without further express approval by Full Council - except where the lease is no longer than 5 years and the difference is less than £5,000 p.a. in which case Cabinet will have the authority to determine.

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

(xiii) 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 financial pressures.

(xiv) 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 (Appendix M – to be provided/updated for full Council).

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

(xvi) 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.

(xvii) It is recommended that the Council reviews the affordability of the Council Tax Support Scheme during the early part of 2022/23 in order for a consultation exercise to be undertaken.

(xviii) A task force be set up urgently to help identify and make recommendations to Council on alternative options to control, and reduce, spiralling Temporary Accommodation costs.

Reasons for Recommendations

1. The Council is under severe financial pressure. It is facing increased costs, particularly from inflation and homelessness, it has large Capital projects in the pipeline and must by law set a balanced budget. It has had to use large elements of its reserves to fund the cost pressures and to balance the budgets in each of the last few years and will need to do so again in 2022/23.

2. A major overhaul of the funding mechanism for local authorities has again been postponed and when combined with a Spending Review that continues to underfund disadvantaged councils will leave the Council with little option but to cut services to the barest minimum. The Council is able to increase Council Tax by a maximum of 1.99% without a referendum against a background of inflation currently running at above 5%.

3. Despite identifying Priority Income and Expenditure Review (PIER) savings of £1.36m for 2022/23 these are insufficient to balance the budget without the further use of Reserves. Once again further significant savings need to be found during 2022/23 in order to reduce the call on the Reserves, achieve a balanced budget in future years, and to try and ensure that reserve levels can be maintained at above the minimum recommended level.

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 – as highlighted by the Covid-19 crisis and one off expenditure items such as dangerous structures, cliffs and reservoir works. The increased in–year spend on temporary housing accommodation necessitates a much greater degree of service reductions elsewhere in the Council.

5. The Council remains 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.

6. The government provided additional funding for Covid-19 in 2020/21 and 2021/22, which has significantly helped the financial position. However even with this additional assistance the Council's costs have exceeded the income it receives and overall there is less government funding for the Council in 2022/23.

Introduction

1. The Council continues to find itself in a very challenging financial period that is anticipated to continue for the foreseeable future. The Council when setting the budget in February 2021 forecast that there would be a deficit in 2021/22 of £1,482,931. Following in year savings the revised budget identifies a deficit of £547,000. This figure does not take account of changes to bad debt provisions or further negative impacts of Covid-19 on the last 3 months of the financial year.

2. For **2022/23** the deficit is estimated at some £2.172m if all savings identified in the report are accepted.

3. Whilst the Council has identified savings of some £1.356m for 2022/23, it is also incurring additional expenditure and expects ongoing difficulties with some income streams e.g. Council Tax, Business Rates and rental income. The level of risk within the budget and uncertainty within the forecasts has increased – particularly the continued uncertainties surrounding Covid, business rate income, and significantly higher demands on services.

4. Temporary accommodation costs have continued to increase dramatically throughout the current year. The existing 2021/22 budget is £3,690,000 (gross) and costs are estimated to increase to £4,373,000 (gross) – a £684,000 (£336,000 net) increase. In 2022/23 full year costs are estimated to be £4,929,000 – an increase of £1,238,000 (£783,000 net).

5. The Council will have invested some £5.3m in purchasing temporary accommodation within the town to mitigate the impact of the higher private sector costs currently being incurred yet this initiative is only slowing the impact on the spiralling costs. Some redirection of Flexible Homeless Support grant is occurring to offset these costs.

6. The Fair Funding Review (the level and distribution of the monies between Councils) has again been postponed. It was made clear in November 2021 that councils' share of business rate growth would not be increased from the current level of 50%.

7. The New Homes Bonus Scheme was extended for 2022/23 but 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 continue to receive greater priority – along with the police and teaching professions.

8. The Council was already facing its most challenging financial period before Covid-19 and now finds itself facing even higher demand pressures. Unless the Council balances its budget in the near future it will be unable to afford to undertake itself, or underwrite, the major redevelopment initiatives that remain so important for the town.

9. Going forward the council can only sustain new initiatives where it can resource these in financial and human terms. 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 if it able to do so.

10. Whilst the Covid-19 crisis persists, if the Council is to survive, it must concentrate on

    - reviewing existing budgets and service provision,
    - delivering those projects that produce income or have significant health and safety, legal obligations, or climate change implications,
    - delivering those regeneration and economic development schemes that have significant funding attached.

11. **As reported in February 2021 the Council could potentially reach the point where unallocated reserves would meet the minimum recommended level that the Council should hold (£6m). A report in November 2021 identified that the Council needed to make further immediate in-year savings to avoid this – bringing in year savings to some £851,000.**

12. **With demand and cost pressures continuing to increase there has been limited time to undertake further service reviews and implement complex measures in preparation for the 2022/23 budget. The Council must continue to identify large savings and make them. If the Council is not able to identify a way of achieving a balanced budget, it will not be able to fund the upfront costs of schemes and expenditure that cannot be capitalised e.g. feasibility studies. It should not be entering any contracts which it will not be able to fulfil, whether it be because of limited funds or due to cash flow issues.**

13. 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 no real term increase in funding. The Covid-19 pandemic has not unexpectedly stretched the Council's already limited resources and has inevitably delayed the identification of further cuts.

14. **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 is likely, once again, to involve making staff reductions along with others being redirected to other priorities**.

15. 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 still be regarded as ambitious in many places. Currently a new hotel in Cornwallis Street, Harold Place redevelopment, units at Churchfields Industrial Estate, the town's housing

plans, and West Marina development are potentially valuable regeneration schemes. 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 Local Plan and the opportunity the Towns Fund affords (£24.3m for Hastings) it is critical to establish an attractive framework to encourage investment and ensure the Council's resources are effectively focused in partnership with others.

16. The importance of retaining reserves has become 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 demand, that the Council continues to experience, has been possible to fund largely because the Council has retained sufficient reserves – the alternative being even more drastic in year service cuts.

17. A number of amendments to the budget figures are expected from those published at the consultation stage as a result of government funding notifications yet to be received. These for example include funding levels for Housing Benefit Administration grant, Discretionary Housing Payments, and the re-calculation of business rate income.

Strategic Priorities

18. The Council's strategic priorities have been reviewed for 2022/23 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. The Corporate Plan is due to be considered by Budget Cabinet and Budget Council alongside this budget report.

19. 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

20. 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.

21. The Council has a very good track record of achieving its objectives and improving performance and will look to further enhance income streams too. To deliver the key elements of its programme in 2022/23 the Council must substantially refine its priorities. Significantly reduced resources will inevitably impact on service delivery in the years ahead.

Financial Planning - Medium Term Financial Strategy

22. The Medium Term Financial Strategy, approved in November 2021, provided indicative budget forecasts for the 4 year period 2021/22 to 2024/25. These have been updated within the budget papers attached.

23. 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 integrates the financial and policy planning procedures of the Council.

24. That robustness of the Strategy 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. However the spiralling homelessness costs are necessitating a wholesale review of what is actually deliverable in the future given the statutory burdens being placed on the Council.

(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 previous years, knowing that these will 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 every year since 2018/19 and will need to do so again in 2022/23.

(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 – which will be all but exhausted by the end of 2021/22.

(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.

(vii) Ensure sufficient reserves are maintained

The Council has needed to use its reserves in the last couple of years to balance its budget following reductions in government funding and ever increasing costs. Volatility within business rates and the Council Tax Support scheme resulted in the establishment of a separate reserve to smooth some of the impact of income fluctuations. The useable earmarked reserves are reducing rapidly, as are General Reserves and this will impact significantly on Council priorities in future years and its ability to provide services or undertake new projects – let alone meet unforeseen costs.

(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 last report produced by the Council's external auditors on the Final Accounts gave a positive opinion on the Council's provision of value for money services. The level of scrutiny by external audit on achieving Best Value is set to increase significantly in the years to come with additional requirements being placed on external auditors to report more fully.

(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.

The Council is increasing Council Tax by the maximum permitted without a costly referendum, while supporting the most vulnerable through the Council Tax Support/ Reduction scheme.

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

25. 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.

26. Key prudential indicators are included in the Treasury Management Strategy, Additional guidance was received in November 2019 from CIPFA – "Prudential Property Investment" and a whole new Code of Practice is being introduced for 2022/23 – as detailed in the Treasury Management Strategy.

The Key Factors Impacting on the Budget

Spending Review, Review of Relative Needs and Resources (Formerly the Fair Funding Review) & Business Rates Retention

27. The government's 2021 Spending Review has provided funding projections for local government as a whole for the next three years. However, Councils have received details of funding for just 2022/23.

28. The Government have again postponed a review of local government funding (Fair Funding Review) and have also announced that the level of business rate growth retained by local councils will remain at 50% – and any future increase to 75% or 100% has been abandoned.

29. 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. The government review of funding (reallocation) is expected to commence again in 2022/23.

Revenue Support Grant (RSG)

30. The Council receives Revenue Support Grant and also retains a percentage of business rates (base line funding level).

31. The RSG amounts to £1,040,989 in 2022/23 (£1,009,837 in 2021/22) – and represents an increase of £31,000 (3.1%). With CPI running at 5.1% this is a cut in real terms.

Funding from Business Rates

32. 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.

33. In order to calculate the likely business rate income receivable, 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 thereafter). The revaluation scheduled by the government for April 2021 was again postponed – it is now due in April 2023.

34. Under the existing scheme 50% of business rates is localised (40% to HBC, 9% ESCC, 1% Fire Authority) 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 (normally) 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 remaining 50% collected by the Council goes to the Government.

35. The 50% central government share is then redistributed 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 but has once again been postponed. The system, the calculations required, accounting treatments, and particularly the budgeting requirements are not straightforward.

36. The changes increase the level of instability in the forecast of resources and the interaction with economic growth or decline will increase the associated risks. A decline in an industry within the borough could result in both a decrease in the business rate base and an increase in the number of Council Tax Support claims.

37. The baseline funding level will be frozen for 2022/23 as the government are freezing the business rate multiplier (49.9p) – to help businesses. The Council will be compensated by additional Section 31 grant for the monies it would otherwise have collected.

38. **Business Rates (Non Domestic rates) - Collection Rates**

39. As at the end of November 2021, the net amount due for the year amounted to £18,852,147. This is significantly less than the £21,520,000 that was originally budgeted for. The difference being the government's rate exemptions granted in the March budget/Covid-19 assistance

packages; mainly for Retail, Hospitality and Leisure businesses for the first 3 months of 2021/22.

40. Of this £18.852m, £12.78m (68.88%) had been collected by the end of November 2021. This is 3.81% less than that collected at the same stage last year and is 7.92% below the 2021/22 target. In cash terms, using these percentages, this would represent £707,000 less than at the same stage as last year and £1,471,000 less than the target.

Business Rates Income – 2022/23

41. 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.

42. In the 2020 budget the government announced a whole raft of business rate exemptions and discounts for the year. This effectively reduced the level of business rates collectable by over £12m and has resulted in a very large deficit on the Collection Fund. Whilst this sum has been reimbursed by Section 31 grant monies from the government, the deficit has remained on the fund due to accounting requirements with government monies being required to be retained in Reserves in order to meet the deficit in 2022/23 (circa £5.1m).

43. The majority of the exemptions and discounts were due to end on 31 March 2021, but the Chancellor extended some reliefs for 3 months in his budget on 3 March 2021.

44. The rateable value (RV) of business properties at the start of the 2022/23 year is forecast to be **£62.85m.** However, given the level of appeals, non-payments, and bad debt levels, forecasting income levels for 2022/23 and beyond remains highly 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.

45. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council would collect some £20.7m in theory of which the Council share is some 40% in 2022/23 (some £7.8m). For Hastings however with a government assessed need (Baseline Need) that is lower than the amount the government predicts that that Council will retain (Business Rate Baseline) a tariff (the difference) is paid to central government – this amounts to £5,667,405 in 2022/23. The estimate of the business rate income collected that will be retained by the Council in 2022/23 as a result of entering into the Business rate pool amounts to £2,052,000. In addition there is Section 31 money from the government which brings the total expected income from business rates to around £4.1m in total. The split between Section 31 grant monies and direct collection remains variable.

46. The Council will remain in the pooling arrangement within East Sussex for 2022/23 as there is still considered to be a significant benefit - to the other participants in particular.

47. The continuous changes to the legislation and the calls on a national basis to reform business rates completely provides major uncertainty for what was once intended to be the major source of external funding for councils.

External Funding – Annual Grant Settlement

48. The 2022/23 provisional finance settlement was finally announced on 18 December 2021 with the final settlement figures expected in February 2022 (last year there were no changes between the provisional and final settlement).

49. The settlement provides details of the Revenue Support Grant and level of Business Rates that the government expects councils to retain – the Settlement Funding Assessment.

50. **Lower Tier Services Grant**: This was a new grant for 2021/22 amounting to £162,661 provided to lower tier local authorities for services such as homelessness, planning, recycling and refuse collection, and leisure services. A funding floor ensures no council sees a year-on-year reduction in Core Spending Power. For 2022/23 the grant amounts to £171,332 (an increase of £8,671 or 5.3%).

51. **Service Grant** – This is a new grant in the sum of **£263,307** but is **payable just for 2022/23.**

External funding – Benefit and Council Tax Administration Grant

52. The Benefit Administration Grant amounts to £425,209 in 2022/23 (£411,383 in 2021/22). Details of the Council Tax Support Administration Grant receivable in 2022/23 is awaited (£156,974 in 2021/22).

53. 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 figure for 2022/23 is awaited (£311,674 in 2021/22). This funding will be fully subscribed.

54. **General Funding**

55. Through the pandemic the government provided much needed support to businesses e.g. small business grants, rate relief, and hardship support, but Councils were not eligible for these schemes. The Council has distributed more than £35m of grants and continues to do so. It is distributing Test and Trace payments, and a recently announced new round of business support grants, namely the Omicron Hospitality and Leisure Grant (£1,254,096), and more discretionary Additional Restrictions Grant (£119,339.40). There is also a new COVID- 19 Additional Relief Fund (£1,560,258), and additional funding from East Sussex County Council on the Household Support Fund (£90,000 in addition to the £195,000 previously allocated).

56. The Council received un-ringfenced government funding in 2021/22, totalling £698,682, towards the additional costs it faces e.g. supporting local people, homelessness, rough sleepers, etc. With the loss of this grant, and despite additional Service grant monies the level of government funding support for 2022/23 is less than 2021/22 and yet expenditure pressures are increasing.

Spreading of 2020/21 Council Tax and Business Rates Deficits – Impact on 2022/23

57. The Council was required to spread the deficits on the Collection Fund arising from 2020/21 over the following 3 financial years. The deficits/surpluses arising from earlier years are not

spread. These deficits are being funded by monies set aside for this purpose in the Resilience and Stability Reserve.

Council Tax Support Scheme (CTSS) – Impact on 2022/23

58. The government allocated £670m to help finance the costs of additional Council Tax Support Scheme Costs in 2021/22. HBC received some £199,520 as a Section 31 grant. This grant scheme **has not** been repeated for 2022/23.

2020/21 Local Tax Income Guarantee Scheme (TIGS)- Impact on 2022/23

59. Last year the government announced a £762m support package for Council Tax and business rate income. The scheme would compensate for 75% of the irrecoverable income losses accrued during 2020/21 as reported after year end i.e. bad debts. The losses would approximate the deficits on the Collection Fund, save that it excluded prior year deficits. The assessment and calculation of the bad debts has a significant impact on the Council's accounts over several years.

60. The income received from TIGS (£136,875) in 2021/22 was accrued into 2020/21, with the intention of it being used to offset the major deficit on the Collection Fund as the position unwinds in 2022/23. This money being credited to a specially created Reserve for this purpose.

External Funding - New Homes Bonus

61. 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 2022/23 amounting to £158,442 in total . This is down from £173,162 in 2021/22 - **a funding loss of £14,720**.

62. 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 – the Council will receive £8,960 in respect of this aspect for 2022/23.

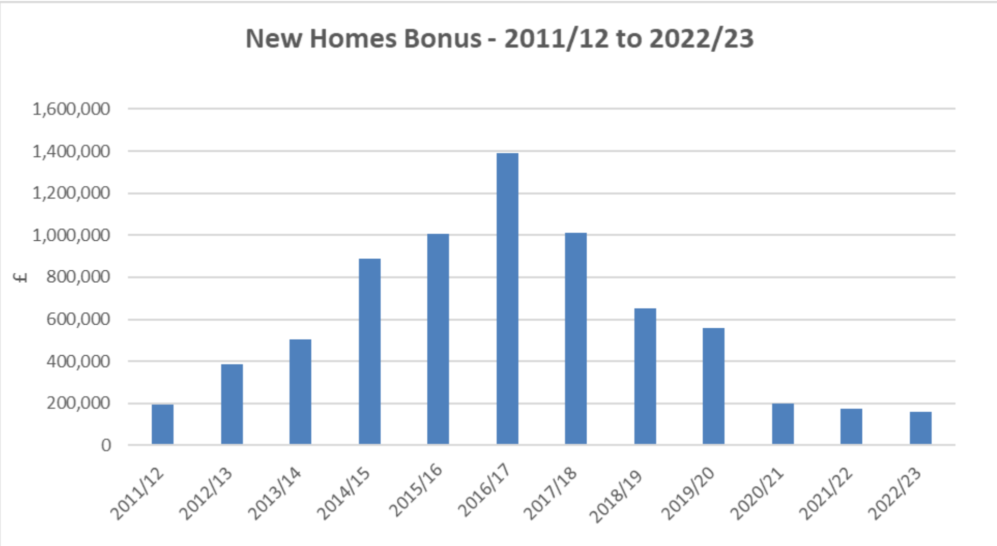
63. The Council Tax Base return (CTB 1 in October each year) identifies the number of new properties completed and the number of long term empty properties brought back into use (net). The funding for 2022/23, like that for 2021/22, is a "one-off" with no ongoing legacy payments.

64. The table below shows the estimated New Homes Bonus receivable by the Council in 2022/23 compared to previous years.

Table: New Homes Bonus

Year	2017/18	2018/19	2019/20	2020/21	2021/22	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		
Year 11					4,480	
Year 12						132,122
Total	1,008,964	649,559	556,337	199,482	173,162	158,442

65. The graph below identifies the funding levels since 2011/12 and the massive reductions since 2016/17.



66. 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.

67. As identified in February 2019 there was a real risk that this grant regime would be ended as part of the “Fair Funding review” and not be replaced. The government have previously stated that they would explore how to incentivise housing growth most effectively, by for

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example using the housing delivery test results to reward delivery or incentivise local plans that meet or exceed local need. As it stands the Council will **lose £158,442 in 2023/24.**

Summarised Grant Position

68. For the period 2010/11 to 2022/23 the reduction in cash grant funding is estimated at 69% 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 significantly more).

69. In 2022/23 the Council will receive business rate income and also Revenue Support Grant (additional £31k) at a combined level that is similar to the Settlement Funding Assessment for 2021/22. New Homes Bonus is however some **£14,720** less than in 2021/22 as detailed in the report and is set to end. The Lower Tier Services Grant amounting to **£171,333 (increase of £8,672)** and a new Services grant of **£263,308** (for 2022/23 only) will assist the Council.

    However, funding of **£698,862** in unringfenced grant to help meet costs/income losses through 2021/22 is not being repeated in 2022/23 and nor is the Council Tax Support funding (£199,520). Likewise, the Lost Income Compensation scheme is not continuing: This provided a safety net for further income losses (from Sales, Fees and Charges only – it excluded rents); the claim for 2021/22 amounting to some £54,000 for the first 3 months of 2021/22.

70. Whilst there had been very significant additional financial assistance from the government in 2020/21 and 2021/22, the ability to forward plan has remained challenging in the absence of any clarity on future funding and resources directed to managing Covid-19 implications. In the meantime, the Council loses income, has the additional costs from inflation, pay increases, temporary accommodation costs and other demand pressures**. The need to make further savings at this time presents the Council with the most significant financial and resource challenges it has ever faced – and there has already been many in the last 12 years.**

Fees and Charges (Including Car Parking)

71. The Council now has limited reserves and remains heavily reliant upon income streams and investment returns to help balance the budget. 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.

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

73. 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. Car parking charges were last increased in February 2019 for a 12 month period (applicable from 1 April 2019).

74. A separate report on Fees and Charges was presented to Cabinet in January 2022, which agreed to increase most fees, including car parking charges in Council owned car parks.

Investment and Borrowing

75. Base rates decreased in March 2020 firstly to 0.25% (from 0.75%) and then to 0.1% where they remained until December 2022 when they were increased to 0.25%. Treasury advisers are now anticipating further rate rises in 2022/23.

76. Given the restricted counterparties list, investment returns of around 0.4% (excluding property funds) are currently estimated for 2022/23. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

77. The Council will have additional borrowing requirements of some £3.9m in 2021/22 to finance the capital schemes, and some £9.6m in 2022/23 (could be far higher if Capital receipts are not received).

78. In 2022/23 and beyond borrowing requirements are high given the ambitious plans of the Council. The affordability of some of these plans needs to be properly tested, on a regular basis given the ongoing uncertainty around Council funding, and the level of reserves available. The Capital programme does not include the building out of the Bexhill Lower Tier site, nor all the Towns Fund schemes – just those accelerated schemes.

79. The conditions for borrowing from the PWLB have been tightened and do not allow for borrowing where the objective is purely for yield. 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. It is again **recommended** that the Council does not seek to undertake any capital project/scheme purely for yield and thus prevent the Council from borrowing from the PWLB.

80. The Capital programme if approved will increase borrowing levels to some £93.6m by 2024/25 and potentially far greater thereafter. The figures exclude any borrowing in respect of Bohemia or in respect of the town centre and any leisure centre. A significantly enhanced 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). These schemes could proceed if appropriate funding is identified.

81. **There are a number of potential projects and developments that are identified in the Capital Strategy that are currently considered unaffordable given the current level of financial commitments, the sustainability of the Council's budget, and the continued uncertainty on future funding.**

Inflation

82. This had not been a major risk over the last couple of years but has now increased significantly. November 2021 saw it increase to 7.1% (Retail Price Index) whilst the government's preferred measure CPI (Consumer Price Index) was 5.1%. Inflation (CPI), according to the government's projections (as per Monetary Policy Committee, August 2021) is expected to return to the 2% target level by late 2023. There are particular increases in fuel and energy costs and building materials, and contract costs linked to inflation.

83. Based upon the above projections, contract inflation is being allowed for at 3% overall for 2022/23 and beyond as many of the increases are determined on this year's indices. Inflation will need to be brought under control quickly for costs to be contained within these estimates. Only contract inflation is being allowed for in the budget i.e. a real cash freeze again for all

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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

84. The salary increase for 2021/22 has not yet been agreed, with the offer currently standing at 1.75% (backdated to April 2021) being rejected by the unions. This level of increase was not allowed for when setting the annual budget for 2021/22 (the government's limits being included). There are also contractual increments (equivalent of around ½%) which have been allowed for.

85. The salaries budget together with national insurance and pension costs amount to some £13.2m in 2022/23.

86. The Council remains committed to paying the accredited living wage of £9.90 per hour (for over 18's from 1 April 2022 – up from £9.50p/h (a 4.2% increase). This is higher than the national minimum/living wage - which increases to £9.50 from 1 April 2021 from £8.91 (a 6.6% increase). These payment levels were extended to the over 23's (previously over 25's).

87. The budget allows for a 2% pay increase in 2022/23 (plus increments), and this estimate may be too low if inflation remains high for long. Any increase above this would need to be met from Contingency.

Universal Credit and Benefit Administration Grant

88. 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).

89. The impact of the change has been a reduction in new benefit claims, an increase in questions and support, and until last year a significant reduction in the Housing Benefit Administration grant receivable. Covid-19 has resulted in significantly more people becoming eligible for Universal Credit as they have been on furlough or their circumstances have changed in the last 18 months. Of the 5,499 claiming Housing Benefits (at the 31 August 2021) an estimated 460 could potentially still transfer onto Universal Credit.

90. It should be noted that the final stage and timeline for converting existing working age Housing Benefit claims onto Universal Credit was to be completed by 2022 and whether this deadline remains is unclear. There does now appear to be some plans for the transfer of pensioners to Universal Credit in a few years' time but there are no details on the more complex cases moving away from Housing Benefit. The retention of the pensioner and complex cases has resulted in the Council retaining some 40% of benefit cases.

91. The Department for Work and Pensions (DWP) continue to provide some additional funding to the Council; this 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.

92. The Benefit Administration Grant for 2021/22 was £411,383. The figure for 2022/23 is £425,209 (an increase of £13,826).

93. The level of Council Tax Support Administration Grant receivable in 2021/22 was £156,974. The figure for 2022/23 is as yet unknown – the 2021/22 grant was only advised in May 2021.

94. 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 also adding an extra layer of complexity to the Council Tax Support Scheme.

Council Tax Support Scheme

95. 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.

96. 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 or for 2021/22.

97. The projections were that due to Covid-19 and subsequent unemployment levels the cost of the scheme could increase significantly from the £10.8m in 2020/21 to some £12.4m in 2021/22. This has not occurred to date and current estimated annualised cost of the scheme is £11.1m p.a. There were 9,208 claimants as of 12 January 2022, compared to 9,505 on 31 March 2021.

98. Lead members considered the scheme again this year and it is again proposed that there will not be any material change to the scheme for 2022/23 other 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.**

99. The Council Tax Reduction Scheme continues to pose a significant financial risk for the Council. 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 i.e. the Resilience and Stability Reserve, as the scheme cannot be amended mid-year.

100. **It is recommended that the Council reviews the affordability of the scheme during the early part of 2022/23**, as significant levels of consultation and lead in times for software changes are required when amending schemes such as this.

Pension Fund Contributions

101. 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.

102. The actuary calculated that the fund liabilities in respect of Hastings staff (past and present) amounted to £122,444,000 whilst assets amounted to £122,188,000. This represented a deficit of some £256,000 and represented a significant improvement in the position of the fund within a short space of time. At a presentation in November 2021 the actuary considered that overall the fund is in surplus.

103. However, the valuation of assets and liabilities for final account purposes must follow a set of prescribed rules which are different, and this calculation shows a deficit of some £46.2m on the Council’s part of the fund as at 31 March 2021.

104. The actual rates (cash) 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%)

105. Despite the increased deficit there are no moves by the actuary to increase contribution rates as their calculations identify that the scheme is fully funded. The reductions in secondary contributions in 2022/23, amounting to £32,000, are expected to offset the impact of the annual increase in pay on pension costs.

106. A new valuation exercise is being undertaken and new rates will become payable from 2023/24.

Staffing, Information Technology and Property

107. 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.

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

Grants

109. 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, Welcome Back Funding ,Sustainable Warmth Fund.

110. 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) **Towns Fund** – this is a £3.6bn national initiative focusing on 100 towns of which Hastings is one. The Council was invited to submit proposals for a £25m funded grant to aid further transformation and received an offer of £24.3m for the delivery of the investment proposals put forward.

(v) **Towns Fund (Accelerated Programme) -** The Council received £1m in respect of this programme and has already distributed the majority of the funding to the 4 successful projects.

111. 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 has been a significant accomplishment and started a major item of work for the Council and its partners.

Levelling Up Fund

112. The government announced a levelling up Fund worth £4 billion for England for investments in infrastructure. The Fund will be open to all local areas and allocated competitively. The spending Review makes available £600m in 2021/22, with further funding spread to 2024/25. The Council has received £125,000 to work up proposals.

UK Shared Prosperity Fund (UKSPF)

113. The fund is intended to level up and create opportunity across the UK for people and places and could reach up to £1.5billion p.a. to match the loss of receipts from EU structural funds.

Revised Budget 2021/22

114. Since determining the budget in February 2021, the Council's budget and its limited resources have continued to be impacted by the effects of homelessness, Covid-19 and other expenditure pressures. The Council has continued to be at the forefront of delivering the government's initiatives to assist businesses and citizens alike.

115. The Council's income streams have been impacted e.g. car parking, rental income, Council tax and business rates. There has been additional costs and demand pressures – particularly around homelessness and rough sleeping.

116. The government extended the business rate relief scheme for the first three months of the year to provide 100% relief to those in the Retail, Hospitality, and leisure sectors, resulting in the Council needing to collect significantly less business rates in the year. However, collection rates remain subdued in respect of business rates and Council Tax and are expected to remain so for some time.

117. The government have provided some new burdens funding (£73,000) to cover administration costs in respect of administering the Business grant scheme into 2021/22 (Restart) and the

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Additional Restrictions Grant. New burdens monies continue to be received for the Test and Trace administration and also in respect of the fraud assurance programmes that have been set up; these are likely to be in place throughout 2021/22 and potentially beyond and will have continuing resource implications. There are further new burdens monies due – details awaited.

118. **The revised 2021/22 total service expenditure budget amounts to £14.1m, against an original budget of £13.5m (Appendix A). The original deficit was estimated at £1.483m and is now projected to be in the region of £547,000 as a result of receiving new burdens funding, timing of Capital spending and new borrowing, identifying further in year savings and after accommodating the higher costs of homelessness, inflationary pressures and one off costs such as the Battle Road remediation works.**

The main income and expenditure variations are summarised in Appendix C.

119. The Council had saving plans for 2021/22 amounting to some £484,000 and additional cost pressures were identified in the budget of £1,359,000 e.g. homelessness, country park.

120. The additional cost pressures in respect of temporary accommodation have exceeded the massive £1.6m increase (£1,075,000 net) already allowed for when setting the 2021/22 budget in February 2021, and a further big increase is being projected for 2022/23.

Homelessness and Rough Sleeping Grants

121. A Winter Homelessness Prevention Grant has recently been received amounting to £226,066.

122. The Council has been buying properties (£5.324m) to reduce the overall costs of homelessness and has been successful in accessing further funding. £1.855m is included in the Capital programme for purchasing properties under the Next Steps Accommodation pathway in 2021/22.

123. Even with the additional grant monies received to date the service expects there to be a budget deficit on homelessness of some £336,000 in 2021/22.

Capital Expenditure (2021/22)

124. There have been a number of amendments agreed to the Capital programme budget by Council since approval in February 2021. Additional monies have been allocated for Harold Place and the Buckshole Reservoir works. The revised timescales result in a shift of the Capital programme towards 2022/23 and 2023/24, with net capital expenditure expected to be £3.841m in 2021/22 rather than the £12.656 in the original budget; this reduces the borrowing requirement significantly in this financial year.

Budget 2022/23

125. The Council's total service expenditure in 2022/23 is estimated at £13.478m. This compares to a revised estimate of £14.113m for 2021/22. The total expenditure for the Council increases to £16.799m in 2022/23 once interest and borrowing are taken into account.

126. 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 £13.717m (down from £14.075m in 2021/22).

127. Against this are additional costs of homelessness and the as yet unknown ongoing costs/loss of income arising from Covid-19 as the impacts extend into next year. The contingency budget has however been decreased from £500,000 to £300,000 as a result of the reduced uncertainties, but will necessitate further in-year cuts if budgets are exceeded or there are significant expenditure priorities.

128. **A balanced budget can be achieved with the use of £2.172m of reserves in 2022/23 This deficit being funded from the Council's Resilience and Stability Reserve (£100,000) and the General Reserve (£2.072m). This leaves the General Reserves at £4.95m by March 2023 - which is well below the minimum level recommended (£6m).**

129. To help achieve the balanced budget for 2021/22, PIER saving targets were set as part of the budget setting process in February 2021 and again in November 2021; the achievement or otherwise of these will be reported formally to Cabinet in July 2022 but will be reviewed frequently.

130. Services need to continue to identify opportunities to make in-year savings during 2022/23 and investigate other ways of achieving corporate objectives when staff leave the organisation.

131. **After eleven years of funding reductions, there are few illusions left about the difficulty in identifying the further budget reductions required to achieve a balanced budget. The cuts directly impact on services, staff, and their families**.

As part of this year's budget process reductions of £1.356m have been identified for 2022/23, These reductions have been offset by growth – particularly with regard to homelessness. Please see Appendices K and K2 for details. Some of the larger savings were identified as part of previous year exercises and are now included in the base budget e.g. reductions in theatre funding, land sales.

(i) Theatre Funding - £100k reduction per annum. The existing contract ends in January 2024 and a review of options will need to be considered.

(ii) Asset Sales – a number of asset sales are being proposed, and there will need to be substantially more to offset the costs of the Capital programme, and potentially to use Capital receipts to meet certain allowed revenue costs e.g. redundancies. The use of such receipts could avoid using earmarked receipts e.g. redundancy reserve and buy the Council a little more time to actually make the savings required or to help re-establish the reserves to recommended levels.

(iii) Reorganisation – savings in the Revenues and Benefits team have been proposed which will involve reorganisation and the introduction of enhanced web based self-service modules. A number of posts will be funded from external grants in 2022/23 onwards which provides a saving for a period, as do secondments.

132. The very significant savings once again identified are however offset by the additional costs (growth items) identified through the budget process.

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Homelessness

133. Significant additional funding has been received in the last few years to help address the homelessness issues. For 2022/23 we will receive £1,078K (an additional £122k) in respect of homelessness. However, the additional net costs for homelessness in 2022/23 have been estimated at £783,000 due to increasing demand and lack of available housing; this is after all the new initiatives being put in place and excludes the borrowing costs in respect of new properties acquired.

It is recommended that a taskforce group be set up to further review all the options that may be available to the Council to stop and then reduce the spiralling costs. Assumptions have been made that in 2023/24 and beyond that measures identified will be implemented and that ongoing reductions will be achieved.

Other Increases

134. Other Increases include:

(i) Reductions in grant funding e.g. New Homes Bonus,

(ii) Pay increases

(iii) Interest rates – Investments vs borrowing rates

(iv) Rateable values and appeals

(v) Local election

(vi) Inflation

135. The Invest to Save fund is all but exhausted. The remaining Invest to Save monies are committed. In February 2021 it was agreed that the use of the monies be determined under delegated powers. It is recommended that the use of any remaining monies is again determined for 2022/23 and beyond under delegated powers by the Chief Finance Officer in consultation with the leader of the Council.

136. The Capital programme is detailed separately in the report. The Council retains big aspirations to continue its programme of projects to invest in regeneration, housing, and culture in future years – with whatever resources it has or can attract to the borough.

137. 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 the General Reserve. Likewise, the Council can recover some costs of disposal (revenue costs) from capital receipts when assets are sold.

138. The Council is required to meet the upfront costs associated with new projects/disposals e.g. feasibility costs, planning permission from revenue resources. To date it has funded these costs from the General Reserve or directly from revenue. The Council will need to identify funding to meet these costs in the future and needs to take these funding requirements into account when identifying a sustainable budget.

139. The 2021/22 budget did not include for the costs in respect of emergency works at Battle Road (dangerous structure). The Council has had to undertake the works in default - the

costs are estimated at £525,000 and are a direct call on the General Reserve. Likewise the closure of the west hill lift in 2021/22 has resulted in a high repair cost and loss of revenue – a further direct call on reserves.

140. **In summary there is an estimated deficit of £2.172m in 2022/23.** Achieving a balanced budget in 2022/23 without using reserves has not proven possible given Covid and the unprecedented increase in costs and loss of income. Whilst difficult to undertake, 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 for future years.

141. **Priority must be to concentrate on achieving the savings identified in the PIER process as listed in Appendix K and make further expenditure cuts. Priorities also remain for enhancing and preserving existing income streams, asset sales, recovery of debt, and renegotiating contracts where possible.**

142. The PIER process will continue in 2022/23 and its immediate priorities will involve reviews across a number of council activities:

(i) Homelessness and temporary accommodation (Gross expenditure Budget £ 4.929m (£2.907m net)
(ii) Tourism and marketing, including decorative lighting, event funding, etc (Various budgets)
(iii) Ground Maintenance (Budget £1.324m net)
(iv) Reorganisation of service structures (Wages and Salaries – circa £13m)
(v) Civic Regalia (Estimated value -£100k to £200k one off capital receipt)
(vi) Bulky Waste – review and consider making free to those on means tested benefits
(vii) Planning Services – Sustainability of the service (Budget £836,000 net)
(viii) Gateway reviews of major projects – not all schemes may be affordable given changing priorities and inflationary pressures – unless external grant funding is available.
(ix) Asset reviews and disposals – these are now going to be imperative, and could involve disposal of assets that are being held for other purposes.
(x) New Environment Act and waste contract implications

Budget 2023/24 and beyond

143. The Local Government Settlement in December has provided funding details for 2022/23 only. Based on the current assumption of no new monies being available to Borough and District Councils overall, this section makes a best estimate of future budget shortfalls.

144. The table below shows deficits of £2.654m in 2023/24, £2.674m in 2024/25, and £2.655m in 2025/26. The 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.

	2021/22 (Revised) (£000's)	2022/23 (£000's)	2023/24 (£000's)	2024/25 (£000's)	2025/26 (£000's)
Net Expenditure	**14,622**	**15,889**	**16,226**	**16,684**	**17,021**
Funding	**(14,075)**	**(13,717)**	**(13,572)**	**(14,010)**	**(14,356)**
Shortfall	**547**	**2,172**	**2,654**	**2,674**	**2,665**
Use of Reserves	(547)	(100)	(100)		
Estimated Shortfall	**0**	**2,072**	**2,554**	**2674**	**2,665**

145. To achieve a balanced budget in 2023/24 further savings, or additional income needs to be generated. Failure to identify the savings would result in the further use of the General Reserve to balance the budget. Even deeper cuts would be required thereafter not only to achieve a balanced budget but also to restore reserves to minimum recommended levels.

146. The future projections are identified in more detail in Appendix G. These estimates assume savings will be achieved in full and expenditure does not increase beyond inflation (except where separately identified). These projections are refined as and when more information is available.

147. The deficits are significantly higher than those calculated in February 2021, mainly as a result of the additional ongoing homelessness costs. The 2022/23 budget includes the additional £263,000 in respect of a new Services Grant – this funding is only being made available in 2022/23. The projections for 2023/24 onwards include a reduction of £158,000 in respect of the New Homes Bonus – as there is no commitment for the scheme beyond this forthcoming year.

Council Tax

148. As at the end of November 2021, the net amount due for the year amounted to £58,312,680 and £45,609,726 (78.39%) had been collected. This was 1.83% more than that collected at the same stage last year and is some 0.65% above the 2019/20 levels. In cash terms this represents £376,000 more than at the same time in 2019/20, and £1,064,000 than in 2020/21.

149. The Council has been able to strengthen its recovery team in the last couple of years with the assistance of a £50,000 annual contribution from ESCC. This will have had a positive impact on collection rates, but the impact of Covid-19 has still been evident given the limited access to the courts earlier in the year, and the limited use of bailiffs to aid the recovery process.

150. The tax base for 2022/23 has been recalculated and is some 2% higher than 2021/22 as a result of a lower number of Council Tax Support claimants than projected and some additional new properties. The effect is to increase the tax base from 25,722 to 26,237 (an increase worth £147,000 p.a. to HBC alone).

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

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
2021/22	1.99%	4.40%	276.17

152. It is again open to the Council to increase Council Tax for 2022/23. One percent on the Council Tax will equate to around £72,458 of additional income for this Council on the revised tax base.

153. For 2022/23 the government have announced a shire district or borough Council can 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.

154. The figures in the appendices (Appendix M available at budget Council) show an indicative 1.99% increase for Hastings BC, a 4.5% increase for ESCC, 1.99% for the Fire Authority and a £10 increase for the Police and Crime Commissioner. (The actual increases will be advised by the respective authorities in due course).

155. Council Tax is at £276.17 p.a. (Band D – Hastings BC element) and a 1.99% increase for 2022/23 would take this to £281.67 p.a. This is a £5.50 per annum increase for a Band D property – a 10p per week increase (in respect of the Hastings Borough Council element).

Asset Sales - Capital Receipts

156. A number of revisions to the programme have been made to take account of changing circumstances. Appendix L provides the profile of programmed receipts.

157. 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.

158. 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 ambitious capital programme given the costs of borrowing.

159. 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.

160. 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, and that further assets reviews and disposals are made as a priority. It is currently possible to use capital receipts to fund certain expenditure e.g. redundancy costs, and is a course of action that the Council will now need to carefully consider – in order to potentially free up the use the of the redundancy reserve to help balance the budget . This does not assist in achieving a sustainable budget – but may buy a bit more time in order to do so.

161. Amendments to Financial Rules and Financial Operating Procedures were agreed at full Council in February 2020 to ensure that where a capital scheme involves a net increase in revenue 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.**

162. **Likewise, it was agreed that no properties or land be disposed of, either by sale or long leasehold, at less than market value without the express approval of Full Council.** This has resulted in a number of relatively low value decisions now being put to full Council rather than being determined by Cabinet. It may be considered appropriate, despite the financial position of the Council, to set a threshold whereby rentals that are considered to be no more than £5,000 p.a. below market rentals can be determined by Cabinet e.g. for premises used for charitable purposes**.**

Capital Programme & Borrowing

163. The Capital programme (Appendix P) has not been immune to the impacts of Covid-19. The gross capital programme spend for 2021/22 is now estimated to be some £7.961m (Original budget £22.4m), with a net budget of £3.674m.

164. The revisions to the programme timing result in higher levels of expenditure in 2022/23 with gross expenditure estimated at £21.746m (£14.854m net). The level of borrowing required is expected to be some £9.62m after use of all available capital receipts.

165. The capital programme in summary is shown in the table below.

	Revised 2021/22 £'000s	2022/23 £'000s	2023/24 £'000s	2024/25 £'000s
Gross Capital Expenditure	7,961	21,746	13,229	8,141
Net Capital Expenditure	3,674	14,854	9,173	6,085
Financing from own resources	50	5,234	73	50
Borrowing Requirement	3,624	9,620	9,100	6,035

166. 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.

167. For 2021/22 there is slippage on a few schemes, including the restoration of Pelham Arcade Works and Roadway, Buckshole Reservoir in particular and the reprofiling of the timelines for others e.g. Energy (Solar).

168. 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), Bexhill Road (housing).

169. It had been the aspiration of the Council to develop out a number of its own sites, whilst urgently needing Capital receipts to fund other projects and avoid new borrowing. Given the severe housing need, and the need to reduce the temporary accommodation costs, the Capital programme proposals include the development, by the Council, of the Mayfield E and Bexhill Road (South) sites rather than direct disposal – such development to be subject to full viability and risk reports. **The Council cannot enter into a contract where it may not be able to afford the development costs or cope with the cash flow implications of undertaking many projects simultaneously**.

170. The level of Disabled Facility Grant (DFG) funding for 2021/22 was £2,056,655. The capital programme will be revised as and when DFG figures for 2022/23 are received – if different. This is a capital grant and can be used for DFG purposes only. The budget is not currently being fully committed, with an estimated spend of £1.4m for 2021/22 – the projected underspends are transferred to an earmarked reserve, with a risk that they may need to be repaid. The service again advises that Covid -19 has resulted in delays and that it expects the money to be fully used. With significant reserves being held by authorities across East Sussex a County wide review is underway.

171. 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

172. It is proposed that **schemes marked with an asterisk (*)** proceed without further reference to Cabinet or Council. **Those that <u>do not</u> have an asterisk will need to have the agreement of Full Council to proceed.**

173. **Future Proposals:** Of significance are the potential schemes that will need funding in the long term e.g. new leisure centre, other Towns deal projects. The potential sums involved are very significant and are identified within the Capital Strategy elsewhere on the agenda – but

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are NOT yet included in the capital programme due to uncertainty as to amount, timing, and affordability.

174. 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 throughout the financial year if necessary.

Capital Programme – Impact on Revenue Account

175. 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 both in terms of the interest costs and the amount of money it has to set aside to repay debt (the Minimum Revenue Provision).

176. The capital programme has significantly increased in the last few years, as economic and regeneration opportunities have been taken. In 2022/23 borrowing is set to increase to some £83m if Capital schemes proceed and approaches £94m by the end of 2024/25. This projection excludes the development of the Bexhill road site (North), other than for the flood remediation works funded externally; the Council may need to allow for an additional £30m of borrowing headroom if this were to be included. Likewise, the programme continues to exclude Town Fund projects, other than those already agreed.

Investment in Council Assets

177. 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.

178. 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.

179. 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 have all been funded from the reserve but further substantial calls on the reserve are anticipated.

180. There are major costs that will be incurred in respect of the concrete structures along the seafront. The latest survey and test results indicate that some £200,000 will need to be spent on concrete repairs to deal with the most urgent issues on a stretch of the esplanade between the Azur and the old bathing pool site – the survey indicates that this should be sufficient to extend the life for a further 5 years before more major repairs are required. In order to extend the life of the existing structures for a further 75 years some £8m would be required – a major capital scheme. A survey in the spring of the stretch between the old bathing pool site to the Carlisle is likely to highlight that works will also be required along this stretch of the esplanade.

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Minimum Revenue Provision (MRP)

181. Local authorities are required each year to set aside some of their revenues as provision for debt repayment; 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.

182. 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.

183. The MRP is set to increase in 2022/23 but not by as much as originally estimated as a result of the lower levels of capital spend in 2021/22. The MRP for 2022/23 is estimated at £1,741,000 (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.

184. The table below identifies the estimated Capital Financing Requirement (CFR) for the current and next three years and the Minimum Revenue Provisions (MRP).

CFR	2020/21 (unaudited) £'000s	2021/22 (Rev Est) £'000s	2022/23 (Estimate) £'000s	2023/24 (Estimate) £'000s	2024/25 (Estimate) £'000s
CFR-Opening	66,372	72,683	74,689	82,752	89,869
Less MRP	(1,500)	(1,668)	(1,741)	(2,006)	(2,327)
Plus New Borrowing	7,811	3,674	9,804	9,123	6,035
CFR Closing	**72,683**	**74,689**	**82,752**	**89,869**	**93,577**

185. 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 2022/23 and regularly thereafter, based on the proposed Capital programme, and subsequent changes and timing thereof.

186. New assets are generally financed over their useful lives e.g. 40 years for housing and exceptionally 50 years (where newly constructed). Vehicles, plant, and equipment are financed over their useful lives (generally 7 to 10 years). The electric vehicles being acquired will be leased as this is financially more viable.

Reserves

187. 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.

188. 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 elements of the Council's capital programme that can not be capitalised e.g. feasibility studies.

189. 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.

190. For the budget strategy reserves at 31 March 2022 are estimated to consist of General and Earmarked Reserves, namely:-

General Reserves	**Estimated Balance at 31.3.2022 £'000s**	**Estimated Balance at 31.3.2023 £'000s**
Revenue Reserves	7,024	4,952
Capital Reserve (Revenue monies)	150	100
Total	**7,174**	**5,052**

Earmarked Reserves	**Estimated Balance at 31.3.2022 £'000s**	**Estimated Balance at 31.3.2023 £'000s**
Renewals and Repairs Reserve	896	748
Insurance & Risk Management Reserve	300	285
IT Reserve	203	178
On Street Car Parking	40	40
Section 106 Reserve (Revenue)	416	367
Section 106 Reserve (Capital)	63	63
Government Grant Reserve	388	309
Monuments in Perpetuity	45	44
Ore Valley Reserve	250	250
Resilience and Stability Reserve	800	700
Redundancy Reserve	440	215
Safer Hastings Partnership	78	78
Disabled Facilities Grants Reserve (DFG'S)	4267	4267
Invest to Save and Efficiency Reserve	132	50

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Carry Forward Reserve	0	0
Controlling Migration	116	
Towns Fund	53	0
Selective Licensing (Incl. redundancy)	0	0
Housing Licensing Reserve	404	232
Revenue Hardship Fund	80	80
Syrian Refugee resettlement Programme	0	0
Community Housing Fund	35	35
Total	**£9,007**	**£7,941**

191. At 31 March 2022 the General Reserve will amount to an estimated £7.024m (unaudited). The Capital Reserve has a balance of £150k which is already committed e.g. empty homes strategy. Earmarked Reserves amount to £9.007m of which a large element is not available to use on anything other than specific areas e.g. DFG grants.

192. The combined value of the General and Earmarked Reserves at 31 March 2022 are estimated at £16.181m (Excluding the business Rates Section 31 Reserve – which is effectively an accounting adjustment). The reserves are projected to decrease to £12.993m by 31 March 2023. The estimated reserves position is shown in more detail in Appendix H.

193. As an absolute minimum, the General Reserve is recommended to be a minimum of £6m i.e. the non-earmarked reserves. The use of the General Reserve to balance the 2022/23 budget leaves the General Reserve below the minimum level. The £6m level 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, NHS claim, dangerous structures, and of course the pandemic. As advised over the last decade, 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. The £6m 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

194. 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.

195. **It is now estimated that there will be £4.952m of unallocated (at present) General Reserve by the end of 2022/23, and just £3.7m of earmarked reserves left at that time. The 2022/23 budget is supported not only by £2.072 of General Reserves but also by £1.699m of Earmarked reserves. 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 and meet future deficits.**

196. Should the Council not produce a balanced or sustainable budget during 2022/23 then the General Reserve would have to be used to balance it. The carrying costs e.g. up front and interest costs of building major schemes will become increasingly hard to finance.

197. 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 (2-10 years), plus concrete repairs on the esplanade.

198. A sum of £400,000 was added to the Resilience and Stability Reserve in 2020/21 to help fund the 2021/22 deficit on the Collection fund which has to be spread over the next 3 years (HBC's share). A much larger sum of £4.959m has had to be added to the reserves in respect of the Business rate elements in the collection fund – the large deficit position unwinds in 2022/23 and the sums in the reserve are largely monies received from the government for this purpose.

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

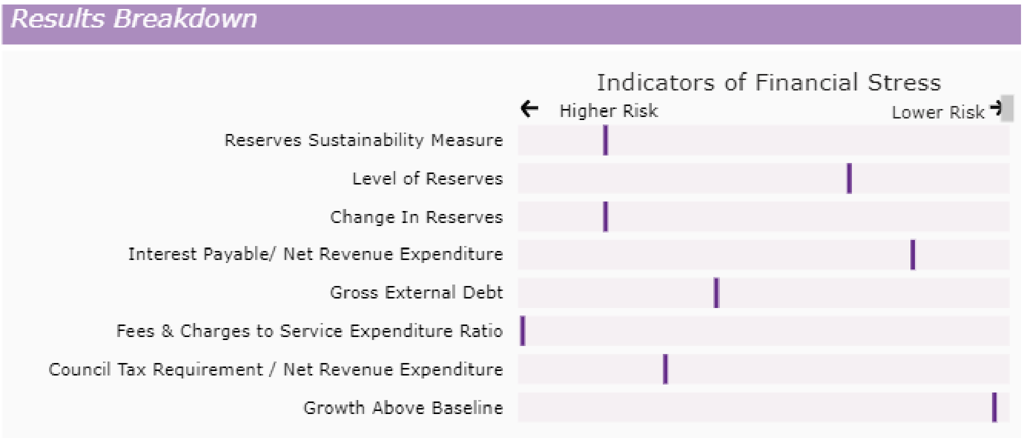
199. Flowing from the financial problems at Northampton CC, CIPFA developed a range of financial indicators relating to the resilience of local authorities given the funding crisis.

These included :-

- Reserves Sustainability Measure
- Level of Reserves
- Change in Reserves
- Interest Payable/Net Revenue Expenditure
- Gross External Debt
- Fees and Charges to service Expenditure Ratio
- Council Tax Requirement/ Net revenue Expenditure
- Growth above Business rate Baseline

200. The 2021 Resilience Index published by Cipfa in February 2021 used 2019-20 figures. New figures are expected to be released in early 2022.

Table: Showing CIPFA Indicators of Financial Stress for Hastings BC



201. Whilst some of the comparative data is out of date, the implications remain largely unchanged. The key reserves sustainability measure places the Council once again in the high risk spectrum. The ones that are not in the higher risk includes the level of Reserves and level of earmarked reserves. This is misleading as the Council holds reserves e.g. Disabled facility Grant monies and section 106 monies that it cannot use for other purposes.

202. It needs to be made clear that these results are backward looking and the useable (by HBC) earmarked reserves are already committed e.g. includes Disabled Facility grants. The Council's external debt is increasing, and the total debt payments will also increase.

203. The reserves continue to be depleted and there is a low level of unallocated reserves. The analysis identifies that grants and Council Tax form a significant element of the Council's net budget, as do income streams and as external funding diminishes this poses a greater risk to the Council's sustainability – as does the reliance on external income sources.

Reserves

204. The Covid-19 pandemic has been unprecedented in modern times, and whilst this will hopeful not occur again for a long time, this is exactly the kind of unexpected financial shock reserves are designed to help councils absorb.

205. The increasing use of the reserves has been fully highlighted elsewhere in this report, and whilst it was always intended to use the transition reserves to help move to a lower spending Council the point has been reached where the Council has had to find even more savings during 2021/22 in order not to go below the minimum recommended level of reserves as a result of additional expenditure pressures.

206. 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 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.

207. 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. The Council is not yet in this position.

Chief Finance Officer Statement

208. **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 generally sound and

that the involvement of senior managers in managing budgets provides a degree of assurance that the resultant estimates are as robust as present economic circumstances and limited resources allow. However, the degree of uncertainty when determining the likely level of income receipts for 21/22 and 22/23 is again unprecedented given the ongoing nature of the pandemic and the impact on the local economy. Likewise the spiralling costs of Temporary Accommodation are a real cause for concern, along with the ability of the Council to make budget savings. The Council needs to be aware that the call on reserves could therefore be significantly higher than the current budget estimates allow.

(ii) the reserves have been adequate to deal with the pandemic and the increase in unexpected costs and homelessness in 2021/22. However, reserves will fall significantly below the minimum recommended level of £6m in 2022/23 if there are no further savings identified quickly to offset the spiralling and ongoing costs the Council is facing.

(iii) The reserves need to be preserved given the uncertainties surrounding future funding streams and expenditure pressures e.g. inflation, wage increases, unexpected events, and the difficulties that will be faced in identifying and achieving more savings or generating additional income. Using more of the unallocated reserves will risk the future sustainability of the Council, its ability to fund Capital projects and to manage unforeseen events.

(iv) The reserves would not be considered adequate to undertake any number of large capital schemes before securing a sustainable budget position. No Council should embark on large Capital programmes without due consideration of the financial implications in both the long and short term on the Council as a whole and its ability to deliver key services into the future.

(v) Financial monitoring and control within the Council was strengthened when setting the 2020/21 budget, and full Council were involved in determining in-year budget reductions in the late autumn of 2021/22 when facing significantly higher homelessness costs. Any further management restructure will need to ensure that the Council will be capable of achieving the requirements of the Financial Management Code. In particular the Council's Financial Rules need to be fully supported and adhered to. 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 as there is only a very limited level of contingency. Financial reporting needs to be enhanced.

(vi) The Council has had a very good record of identifying and achieving savings over the last 10 years. The Council has again identified spending reductions for 2022/23, which when combined with the need to achieve more PIER savings, undertake further reorganisation, deliver a large number of high value projects, against a background of higher demand, presents serious challenges for the Council to achieve in what is now a relatively short timescale.

(vii) The Council will need to prioritise, much more than it has done so already, the identification and delivery of budget reductions and the sale of assets. It may well now need to dispose of assets to further fund the costs of transition to a lower spending Council – and will need to do early in 2022/23.

Climate Change

209. The Council has made major commitments on climate change and the budget supports the objectives set out in the Corporate Plan to achieve this. Projects contained within the Capital programme will need to support and comply with Council policies and objectives as a minimum and will be assessed on their merits when considered by Council.

210. It is expected that the Council's plans, policies, and objectives in this area will make greater calls on the Council's available resources in the future. The Council will for example be leasing a number of electric vehicles following a review of service requirements.

Equalities and Community Cohesiveness

211. 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).

212. 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

213. Numerous risks are highlighted in this report, and further comment is made below. The Council did not specifically identify the pandemic in its risk register but has prudently maintained reserves for unforeseen events. The Council's policy on reserve levels has stood it in a good position to date.

214. Given uncertainty in the world economic outlook, the pandemic, and volatility of income streams 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 assets.

215. 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.

216. 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:-

(i) **Review of Relative Needs and Resources & Business Rates retention**
The Spending Review 2021 (SR21) provided some funding projections. The previously named Fair Funding Review (with a new grant funding regime) was postponed yet again.

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. Rateable values, following appeals have declined less than anticipated in 2021/22 but the collection rates are much lower with a consequent impact on income.

(ii) **Income**

The Council has been seeking to grow its income streams over the last few years. Attention has moved to housing acquisition given the need to reduce homelessness costs. Codes of Practice surrounding Treasury Management prevent the use of borrowing purely for yield.

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.

Covid-19 and the economy will continue to impact on businesses, business rate and Council Tax collection rates, as well as major income streams such as property rentals and parking charges.

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

Increased demand for public services – homelessness and temporary accommodation. It 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. social lettings agency, energy, temporary accommodation, refugee schemes, housing company, etc. 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 impacts on remaining staff can be significant. Likewise, 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 would normally fall wholly on the Council.

The Council should investigate a new scheme for 2023/24 with all the implications this has on the local community and the Council in devising the scheme.

The Council is not proposing any change to the scheme for 2022/23.

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 of last year the transfer of existing working age claimants to Universal Credit was expected to be completed by 2022/23. It remains to be seen whether this happens.

(vi) **Restructuring Costs.** In order to make savings of the magnitude still required , the Council will need to further reconsider what services it can provide and to what level - further restructuring seems inevitable.

Voluntary and/or compulsory redundancies often 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. The provision in the accounts and balance on the reserve is expected to be sufficient to meet the additional costs of transformation in 2022/23 given changes to the national pension scheme rules. However, it will now need to consider whether it uses Capital receipts(if available) to meet these costs in order to try and preserve reserves and buy time to make savings.

(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.

(ix) **Potential Liabilities**

(i) **Business Rate Valuations/ Appeals** – The Valuation Office Agency (VOA) continue to work through appeals. The figures can be very large when they are backdated, and the Council is having to make provisions for up to 5 years.

(ii) **Cliffs** – A further £100,000 has been allocated from the Renewal and Repairs reserve for additional works in 2022/23. Further costs are expected to arise once further clearance and repair work is undertaken and additional monies will need to be identified in the future. The Renewal and Repairs reserve cannot sustain this level of expenditure indefinately.

(x) **The Economy** – Economic and financial uncertainty surrounding Covid-19 and world wide trade agreements remains a major risk. 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 few years.`

(xii) **Asset Disposals –** the identification and sale of surplus or underperforming assets remains crucial to funding the Capital programme and minimising revenue costs.

(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 and the absolute need to meet Climate Change targets.

(xix) **Land Charges** – The transfer of key parts of the service to the land registry could result in the further loss of income.

Economic/ Financial Implications

217. Corporate priorities rightly remain ambitious, but there are insufficient resources to produce a balanced budget for 2022/23 without again relying on the significant use of reserves.

218. The financial implications in 2022/23 and beyond are detailed in the report. **However, rapid and significant action must be taken by the Council to produce a sustainable budget beyond 2022/23.**

219. The economic regeneration of the town remains a key priority for the Council, and the Towns Fund can play a significant role in achieving the ambitious objectives in these challenging times. The ability to work with partners to help stimulate the local economy continues but could be seriously impacted in the future with any reductions in our funding. There are also a number of significant projects within the capital programme that will help with the continued regeneration of Hastings.

220. 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 demand and cost pressures in terms of homelessness, volatility on business rates, and loss of new homes bonus after 2022/23, plus contract inflation and wage settlements.

221. The Council took further action in November 2021 to reduce spending and help ensure that reserves do not fall below the minimum recommended level by the end of 2021/22. They now look certain to do so during 2022/23 given the level of government funding, the added pressures of homelessness, and the ability to identify and achieve offsetting savings. The ongoing impact of Covid-19 on the economy and Hastings is difficult to determine and whilst the level of contingency has been decreased to £300,000 it may well be insufficient and further reports to full Council may be required in respect of the additional use of reserves.

Organisational Consequences

222. The consequence is that besides staff reductions, others must be redirected - at least temporarily, towards priority areas. Some service areas have a significant backlog of work and projects to catch up on in 2022/23 and some staff will be catching up on missed leave, whilst other experienced staff will have left the organisation.

223. There will inevitably be organisational consequences from time to time as savings must be made and staff redirected to other priorities. The review process continues given the substantial savings the Council is required to make and the uncertainty that still surrounds future funding, and the demand pressures on the Council. The Council seeks to minimise the impact wherever possible through redeployment and voluntary severance.

Anti-Poverty

224. 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

225. The Council has numerous projects and programmes included within the budget that seek to help and address Poverty within the borough. The Capital programme and bids for external funding are largely targeted towards sustainable economic development, regeneration,

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housing, and renewable energy – in support of an ambitious Corporate Plan to address the pressing needs within the borough.

Consultation

226. The draft Corporate Plan and Budget is the subject of consultation from Friday 14 January 2022. The closing date for comments 7 February 2022 being after the dispatch of the Cabinet agenda and therefore any comments received are reported verbally to Budget Cabinet which meets at 6pm on 7 February 2022. 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.

227. The full Council meets to set the budget on 16 February 2022.

Timetable of Next Steps

228. 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 14 January 2022	Consultation Closes 7 February 2021	Chief Finance Officer
Budget Cabinet		7 February 2022	Chief Finance Officer
Budget Council		16 February 2022	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	Yes
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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