Report To: **Budget Full Council**

Date of Meeting: **15 February 2023**

Report Title: DRAFT Revenue Budget 2023/24, and Capital Programme 2023/24 to 2025/26

Report By: **Kit Wheeler**

Chief Finance Officer

Key Decision: **Yes**

Classification: **Open**

Purpose of Report

THE REPORT AND APPENDICIES HAVE BEEN UPDATED TO REFLECT THE AMENDMENTS MADE AT BUDGET CABINET – BUDGET COUNCIL ARE THEREFORE RECOMMENDED TO AGREE THE REVISED PROPOSALS

1. This report presents the draft budget for 2023/24.
2. The report identifies that a balanced budget in 2023/24 can only be achieved by using £2.5m of reserves, and that further substantial savings will be required in future years.
3. However, the forecasts for future years show an increase in reserves should the substantial saving targets be achieved. e.g. 2025/26 is currently forecast to be a predicted surplus with further surplus forecasts in the proceeding financial years.
4. 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.
5. This report will be updated for the Budget Council after the consultation and after it is presented to Cabinet following the receipt of the final government grant settlement, and changes in the business rate income projections.
6. In setting the budget for 2023/24, 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 future year forecasts 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.
7. The Cabinet meeting on the 6th February 2023 is a key part of the budget setting process. The full Council meeting on the 15 February 2023 is responsible for setting a

balanced budget and determining the Council Tax.

8. Whilst savings of £1.4m have been identified for 2023/24, 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 2023/24 of 2.99% which is the maximum permissible without a referendum.

9. Not all the grant figures will be received before determining the budget. As such some figures will remain as estimates and adjustments will be made when details are known e.g. figures for Disabled Facility Grants are not expected until well into 2023/24. Precept figures will be presented to Budget Council once determined by East Sussex County Council, Police and Crime Commissioner, and Fire Authority.

Recommendation(s)

(i) Approve the draft 2023/24 revenue budget (Appendix A)

(ii) Approve a 2.99% increase in the Borough Council's part of the Council Tax.

(iii) Approve the Capital Programme 2023/24 to 2025/26 (Appendix D).

(iv) 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.

(v) 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 and Chief Executive.

(vi) Agree once 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.

(vii) Approve the revised Land and Property Disposal Programme (Appendix F) and agree that disposals can be brought forward if market conditions make it sensible to do so and as part of the future Capital Asset Strategy.

(viii) 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.

(ix) 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.

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

(xi) 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).

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

(xiii) 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.

(xiv) It is recommended that the Council reviews the affordability of the Council Tax Support Scheme during 2023/24 in order for a consultation exercise to be undertaken.

Reasons for Recommendations

1. The Council continues to be 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 2023/24 and 2024/25.

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 statutory minimum. The Council is able to increase Council Tax by a maximum of 2.99% without a referendum against a background of inflation currently running at above 9%.

3. Despite identifying Priority Income and Expenditure Review (PIER) savings of over £1.4m for 2023/24 these are insufficient to balance the budget without the further use of Reserves. Once again further significant savings need to be found during 2023/24 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.

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 2022 forecast that there would be a deficit in 2022/23 of £2.33m. Despite in year savings the forecast outturn identifies a deficit of £3.36m.

2. For 2023/24 the deficit is estimated at some £2.53m if all savings identified in the report are accepted and then achieved.

3. Whilst the Council has identified savings of some £1.4m for 2023/24, it is also incurring additional expenditure and expects ongoing difficulties with some income streams e.g. Council Tax, Business Rates and rental income.

4. Temporary accommodation costs have continued to increase dramatically throughout the current year. The 2022/23 budget is currently insufficient to meet the current demands and is forecast to require further additional funding of £2.3m in 2023/24 to cope with the anticipated increase in demand for services.

5. 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%.

6. 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 councils' providing adult and children's care services will continue to receive greater priority – along with the police and teaching professions.

7. As reported in September 2022 the Council could potentially reach the point where unallocated reserves would meet the minimum recommended level that the Council should hold (£6m) and even drop further below this threshold in future years with the very real threat of issuing a Section 114 notice if no action was undertaken around solving the Housing crisis in particular.

8. Since September 2022 the council has worked extremely hard to identify savings, but also involved experts to undertake reviews of its Housing department and its approach to tackling the Housing crisis. This has allowed thorough examination and investigation into ways in which the Council could improve its approach that has meant strategically not looking at short term solutions but multi-year options and projects, culminating in substantial savings over the medium term of up to £3m by the end of 2025/26.

9. 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, 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.

10. 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

11. The Council's strategic priorities have been reviewed for 2023/24 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.

12. 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

13. 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.

Financial Planning - Medium Term Financial Strategy

14. The Medium Term Financial Strategy update report, in September 2022, provided indicative budget forecasts for the 4 year period 2022/23 to 2025/26. These have been updated within the budget papers attached.

15. 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.

16. 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 2023/24.

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

(iv) Continue to identify and make efficiency savings

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

(v) Review relevant fees and charges comprehensively 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.

A detailed review of Earmarked Reserves is planned for 2023/24 as part of a council wide approach to its financial management and to ensure that all funds are appropriately resourced moving forwards.

(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 latest report from the External Auditors based on the 2020/21 financial year highlighted some areas of improvement and many of the recommendations included in the report have already been implemented in 2022/23 with the rest set to be finalised in 2023/24.

(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.

17. 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.

Funding Allocations

18. The Local Government Finance Settlement is the annual determination of funding to local government. It was finally announced on the 19th December 2022.

19. 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.

20. The Government had previously announced as part of its Autumn statement various potential positives for local Councils and intimated that it would be supportive of the issues that Councils were facing.

21. Whilst it allows the Council to increase Council tax by up to 3%, (previously 2%) the overall funding breakdown meant that as a Council Hastings actually will revive less funding than the previous financial year by around 10% net.

	2022/23 £	2023/24 £	Change £	Change %
Revenue Support Grant	1,040,990	1,308,581	267,592	25.7%
Lower Tier Services Grant	174,732	154,478	-20,254	-11.6%
2022/23 Services Grant	263,308	-	-263,308	-100.0%
New Homes Bonus	158,442	16,240	-142,202	-89.8%
	1,637,471	**1,479,299**	**-158,172**	**-9.7%**

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

23. The RSG amounts to £1,308,581 in 2023/24 (£1,040,990 in 2021/22) – and represents an increase of £267,592 (26%).

24. The Council receives Lower Tier Services Grant amounting to £154,478 provided to lower tier local authorities for services such as homelessness, planning, recycling and refuse collection, and leisure services. For 2023/24 the grant amounts to a decrease of £20,254 (12%).

25. The 2022/23 Services Grant was a one-off Grant for that year and no further allowance has been provided.

26. The New Homes Bonus Scheme 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 2023/24 amounting to £16,240 is £142,202 less than the previous financial year. A funding loss of 90%.

27. 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 2023/24, like that for 2022/23, is a “one-off” with no ongoing legacy payments.

Funding from Business Rates

28. 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.

29. 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.

30. 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.

31. 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.

32. 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.

Business Rates (Non Domestic rates) - Collection Rates

33. As at the end of December 2022, the net amount due for the year amounted to £21,008,220. This is just over the £20,838,045 that was originally budgeted for.

34. Of this £21.008m, £16.335m (77.76%) had been collected by the end of December 2022. This is 13.24% more than that collected at the same stage last year. In cash terms, using these percentages, this represents £1.9m more than at the same stage as last year and £170,175 over the target.

Business Rates Income – 2023/24

35. 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.

36. 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 2023/24 (circa £6.8m).

37. The Rateable Value (RV) of business properties at the start of the 2023/24 year is forecast to be £66.4m. However, given the level of appeals, non-payments, and bad debt levels, forecasting income levels for 2023/24 and beyond remains highly challenging.

38. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council would collect some £23.5m in theory of which the Council share is some 40% in 2023/24 (some £9.4m). 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 £6,174,839 in 2023/24. The estimate of the business rate income collected that will be retained by the Council in 2023/24 as a result of entering into the Business rate pool amounts to £192,707. In addition, there is Section 31 money from the government which brings the total expected income from business rates to around £4.8m in total. The split between Section 31 grant monies and direct collection remains variable.

39. The Council will remain in the pooling arrangement within East Sussex for 2023/24 as there is still considered to be a significant benefit.

External funding – Benefit and Council Tax Administration Grant

40. The Benefit Administration Grant amounts to £425,209 in 2022/23 and details of the 2023/24 grant are still to be advised. Details of the Council Tax Support Administration Grant receivable in 2023/24 is awaited (£156,974 in 2021/22).

41. 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 2023/24 is awaited (£220,901 in 2022/23). This funding will be fully subscribed.

Fees and Charges (Including Car Parking)

42. 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.

43. A separate report on Fees and Charges was presented to Cabinet in December 2022, with the recommendation that fees and charges were increased broadly at 10% unless otherwise stated.

Investment and Borrowing

44. 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.

45. The Capital programme (if approved) will increase borrowing levels as outlined in the Treasury Management Strategy document (published separately as part of the agenda).

46. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR.

47. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

48. As part of the Medium Term Financial Strategy update report in September 2022 it was agreed that the council would bring in an external MRP expert to review the current policy and calculations used historically. That piece of work is now complete, and it has identified potential changes which if approved will significantly financially benefit the council. A separate report will be brought to Cabinet in January to request the change of policy.

Inflation

49. The 2023/24 budget has been developed in a relatively unstable macroeconomic environment with inflation at a 40 year high. This has resulted in increased cost pressures for both the council and local businesses and the council's service users.

50. In budgetary terms these pressures are being realised directly through increased unit costs for items such as energy and utilities, alongside inflation linked contractual cost increases. In addition to the increased costs for service provision, the macroeconomic environment is also resulting in increased demand for some of our services, most notably temporary accommodation for homelessness.

Public Sector Pay Settlement and National Living Wage

51. Pay and remuneration is one of the council's biggest items of expenditure. The gross staffing budget for 2023/24 is £15.2m. The 2023/24 budget has assumed that a net £440,000 of additional resources are needed to fund increases in pay due to:

- Pay Awards - The salary increase for 2022/23 has been agreed, with the £1,925 increase backdated to April 2022. This level of increase was not allowed for when setting the annual budget for 2022/23 (the government's limits being included).
- Contractual increments (equivalent of around ½%) which have been allowed for.
- The Council remains committed to paying the accredited living wage of £10.90 per hour (for over 18's from 1 April 2022 – up from £9.90p/h the previous year.
- The budget allows for a 3% pay increase in 2023/24 (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

52. 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).

53. 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.

Council Tax Support Scheme

54. 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.

55. 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 explored by this Council in 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.

56. 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.

57. 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.

58. It is recommended that the Council reviews the affordability of the scheme during the early part of 2023/24, as significant levels of consultation and lead in times for software changes are required when amending schemes such as this

Pension Fund Contributions

59. The Employer's pension contribution rate has increased by 4.5% to 22.1% of pay (previously 17.6%), following the triennial revaluation of the pension fund. The additional cost of this increase is approximately £466,000 per annum. However along with the increase in the percentage payable, the additional lump sum payment amount of £476,000 has been removed leading to an overall saving of approximately £10,000. The actuaries forecast the total amount payable for 2023/24 to be £1.98m.

Staffing, Information Technology and Property

60. 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.

61. 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

62. 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.

63. Regional and European funding successes have been very significant for Hastings in the past. 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.

64. **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.

65. **Levelling Up Fund** - The government announced a levelling up Fund worth £4 billion for England for investments in infrastructure. The council was unable to bid in rounds 1 and 2 due to capacity and the requirement for the level of matched contribution needed, however plans are being developed for a bid to round 3 if, and when this is initiated by the government.

66. **UK Shared Prosperity Fund (UKSPF)** - 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. The council was allocated a

significantly lower than anticipated amount of funding £1m over 3 years and following the report to Cabinet in November 2022 is developing plans for how it intends to utilise these funds in a targeted area.

Revenue Outturn 2022/23

67. Since determining the budget in February 2022, the Council's budget and its limited resources have continued to be impacted by the effects of homelessness, 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.

68. The main income and expenditure variations on Direct Service Expenditure are summarised in Appendix O.

69. The additional cost pressures in respect of temporary accommodation have exceeded the £1.6m increase (£1,075,000 net) already allowed for when setting the 2022/23 budget in February 2023, and a further big increase is being projected for 2023/24.

70. The Housing and Homelessness Task Force which has been operational this financial year has been set up with the focus on reducing the expenditure in this area and looking at more financially sustainable alternatives in the future.

71. It is forecast that an additional £1.03m will need to be drawn from the General Reserve to cover the forecast overspends in 2022/23.

Capital Expenditure (2022/23)

72. There have been a number of amendments agreed to the Capital programme budget by Council since approval in February 2022. Additional monies have been allocated for Ground Maintenance Equipment, Roof refurbishment, Cliff railways, Housing acquisition and Cornwallis Street development. The revised timescales result in a shift of the Capital programme towards 2023/24 and 2024/25, with net capital expenditure expected to be £7.429m in 2022/23 rather than the £14.854 in the original budget; this reduces the borrowing requirement significantly in this financial year.

Budget 2023/24

73. The Council's Total Service Expenditure in 2023/24 is estimated at £14.82m. This compares to a forecast outturn of £17.22m for 2022/23. The Total Expenditure for the Council increases to £17.7m in 2023/24 once interest and borrowing are taken into account (£19.1m forecast outturn for 2022/23).

74. After allowing for a 2.99% increase in Council Tax and an increase in the Council tax base of 2%, the total funding to be met from Grant and the Collection Fund is estimated at £13.99m (£13.68m in 2022/23).

75. A balanced budget can be achieved with the use of £3.4m of reserves in 2022/23 This deficit being funded from the Council's Resilience and Stability Reserve (£100,000) and the General Reserve (£3.3m).

76. As part of this year's budget process reductions of £1.4m have been identified for 2023/24. These reductions have been offset by growth. Please see Appendices K and L for details.

77. 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 town.

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

79. The PIER process will continue in 2023/24 and its immediate priorities will involve reviews across a number of council activities as detailed in Appendix K.

Budget 2024/25 and beyond

80. The Local Government Settlement in December has provided funding details for 2023/24 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.

81. 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.

82. The significant savings identified as part of the PIER process and the MRP review piece of work means that potential deficits in future years could be reduced altogether by the end of 2024/25 but caution is still required when looking too far into the future as recent events have taught us.

Council Tax

83. As at the end of December 2022, the net amount due for the year amounted to £61,409,634 and £50,091,082 (81.57%) had been collected. This was 5.2% less than that collected at the same stage last year.

84. The tax base for 2023/24 has been recalculated and is some 2% higher than 2022/23 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 26,237 to 26,473 (an increase worth £69,000 p.a. to HBC alone).

85. It is again open to the Council to increase Council Tax for 2023/24. One percent on the Council Tax will equate to around £74,500 of additional income for this Council on the revised tax base.

86. For 2023/24 the government have announced a shire district or borough Council can increase Council Tax by up to 2.99%, or up to and including £5, whichever is the higher. If higher than this the Council would be required to hold a referendum.

87. The figures in the Appendix M show an 2.99% (£8.42) increase for Hastings BC, a 4.99% (£80.46) increase for ESCC, 5.03% (£5.00) for the Fire Authority and a 6.67% (£15.00) increase for the Police and Crime Commissioner.

88. Council Tax is at £281.67 p.a. (Band D – Hastings BC element) and a 2.99% increase for 2023/24 would take this to £290.09 p.a. This is a £8.42 per annum increase for a Band D property – a 16p per week increase (in respect of the Hastings Borough Council element).

Asset Sales - Capital Receipts

89. The Council has undertaken preparatory work and is now initiating a detailed strategic review of, and plan for its significant land and property assets. As a result of this work the council can determine the role assets will play in the assisting the council to achieve its objectives – be that to assist with its financial pressures and/or income generation or achieve alternative uses that support wider objectives if the council can afford to retain them.

90. 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.

91. 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.

92. 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.

93. 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.

Capital Programme & Borrowing

94. The Capital programme is detailed in Appendix D. The gross capital programme spend for 2022/23 is now estimated to be some £13.958m (Original budget £21.746m), with a net budget of £7.429m.

95. For 2023/24 there is slippage on a few schemes, including the restoration of Pelham Arcade Works and Roadway, Buckshole Reservoir, Churchfields Business Centre and Cornwallis Development in particular and the reprofiling of the timelines for others e.g. Energy (Solar).

96. 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), Industrial units (Churchfields Estate), Bexhill Road (housing).

97. The level of Disabled Facility Grant (DFG) funding for 2022/23 was £2,056,655. The capital programme will be revised as and when DFG figures for 2023/24 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 £1.9m for 2022/23 –

the projected underspends are transferred to an earmarked reserve, with a risk that they may need to be repaid.

98. 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

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

100. 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.

Investment in Council Assets

101. 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.

102. 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. The council also needs to ensure it sets aside funds to meet ongoing maintenance and planned upgrades in future years.

Reserves

103. 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.

104. 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.

105. 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.

106. At 31 March 2023 the General Reserve will amount to an estimated £6.6m. The Capital Reserve has a balance of £150k which is already committed e.g. empty homes strategy. Earmarked Reserves amount to £12.6m of which a large element is not available to use on anything other than specific areas e.g. DFG grants.

107. The combined value of the General and Earmarked Reserves at 31 March 2023 are estimated at £19.4m. The estimated reserves position is shown in more detail in Appendix H.

108. As an absolute minimum, the General Reserve is recommended to be a minimum of £6m i.e. the non-earmarked reserves. 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

109. 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.

110. The Earmarked Reserves will be subject to a full review to ensure that allocations are still relevant and adequate for the Councils Corporate priorities and plan.

Chief Finance Officer Statement – Section 25

111. 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 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.

The continued spiralling costs of Temporary Accommodation are a real cause for concern, along with the ability of the Council to continue to make budget savings. The Council has identified significant future savings in this area which should help to offset these costs and reduce the need to call on reserves. However, there are factors outside of the council's control which could still significantly negatively impact the savings and forecasts and need to be continually monitored through the Housing and Homelessness Taskforce.

ii. 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.

iii. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Authority Accounting Panel (LAAP) has a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 77) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's Statement on the Role of the Finance Director in Local Government. It is best practice to follow this guidance.

iv. However, the guidance states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the council's budget. Each Local Authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.

v. 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.

vi. The minimum recommended level of General reserve is currently set at £6m. Current forecasts indicate the Council will drop below this level and continue to be below this level until full savings are realised in future years.

vii. Reliance on reserves to balance the budget longer term is not a sustainable financial model. However, the projections demonstrate that the identified areas of savings and efficiencies will lead to the current downward trend improving in future years and this is will be key to securing the councils long term financial future.

viii. The delayed Senior 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 and accountability needs to be enhanced.

Climate Change

112. 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.

113. 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.

Equalities and Community Cohesiveness

114. The equalities implications of the proposals included in the draft budget and corporate plan will be set out in Appendix L which is, as yet, not completed. 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).

Risk Management

115. Numerous risks are highlighted in this report, and further comment is made below.

116. 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.

117. 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:-

(x) **Business rates** 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.

(xi) **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.

(xii) **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.

(xiii) **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.

(xiv) **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 2024/25 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 2023/24.

(xv) **Staffing Reduction Costs.** In order to make savings of the magnitude still required, the Council will need to further reconsider what activities and service levels it can provide until our financial position is stabilised.

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 2023/24 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.

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

(xvii) **Treasury Management** – Borrowing costs, investment security and level of returns. The management of the Council's debt portfolio and its assets becomes increasingly important.

(xviii) **Potential Liabilities - 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.

(xix) **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.

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

(xxi) **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.

Economic/ Financial Implications

118. Corporate priorities rightly remain ambitious, but there are insufficient resources to produce a balanced budget for 2023/24 without again relying on the significant use of reserves.

119. The financial implications in 2023/24 and beyond are detailed in the report. However, further significant action must be taken by the Council to produce a sustainable budget beyond 2023/24.

120. 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.

121. 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 contract inflation and wage settlements.

Organisational Consequences

122. The council has faced significant challenges over the last few years when it re-focussed activity to support our community through the pandemic. This re-focussing and the taking on of further new responsibilities (e.g.) payment of cost-of-living payments and support for new communities e.g. people fleeing the war in Ukraine has challenged our capacity further. The financial pressures we are facing as a result of the housing crisis have required us to reduce further the numbers of people who deliver the services the people of our town need. Whilst we have made reductions in areas where we have vacant posts, the impact of losing these posts permanently will be keenly felt and will be evident in reduced service levels.

123. Council staff operate as one team and in order to meet the challenge facing our organisational sustainability, significant cross-council focus is being directed to achieve the objectives of the Housing and Homelessness Task Force. This may mean colleagues being diverted from their substantive role to other priorities or activities paused for the time being.

124. It is anticipated that these efforts will pay off and the council will reach a sustainable point in two / three years and can consider re-starting activities that have to be paused at the present time.

In the short term however, the council needs to achieve a further reduction in service costs to help balance our budget until the medium-term impacts of the plans to reduce the costs of temporary accommodation are realised. This will be a challenge as the council must continue to deliver those services it has a legal duty to provide, and therefore the burden of reductions will inevitably fall hardest on those areas that are discretionary, but still important to the town.

125. Councillors and officers will continue to review the council's activities and ensure we are as efficient as possible, are maximising income and retaining the best staff to deliver for residents. Where decisions are made to reduce service levels or cease activity, the council will seek to minimise the impact through redeployment, re-training, and voluntary severance.

Conclusion

126. In forming my opinion on the budget proposals put forward by Cabinet I have carefully considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the service planning process, the financial risks facing the Council and the adequacy of the councils' reserves.

127. Members are advised to have regard to this statement when approving the budget and the level of Council Tax for the financial year.

Anti-Poverty

128. 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

129. The Council has numerous projects and programmes included within the budget that seek to help and address Poverty within the borough and diverted significant resources in 2022/23 to ensure speedy allocations of government cost of living support to our residents. The Capital programme and bids for external funding are largely targeted towards sustainable economic development, regeneration, housing, and renewable energy – in support of an ambitious Corporate Plan to address the pressing needs within the borough.

Consultation

130. The draft Corporate Plan and Budget is the subject of consultation from Friday 13 January 2023. The closing date for comments was 3 February 2023.

Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible

Budget Council		15 February 2023	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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