Report To:	**Budget Cabinet**
Date of Meeting:	**12 February 2024**
Report Title:	**DRAFT Revenue Budget 2024/25, and Capital Programme 2024/25 to 2026/27**
Report By:	**Kit Wheeler** **Chief Finance Officer**
Key Decision:	**Yes**
Classification:	**Open**

Purpose of Report

1. To present the draft Revenue budget 2024/25 and Capital programme budget for 2024/25 to 2026/27, including an updated MTFS (Medium Term Financial Strategy) forecast for future years.

2. Please note that the final grant settlement figures from government have not yet been received. Likewise, not all 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.

Recommendation(s)

Cabinet recommends that full Council:-

(i) Approve the draft 2024/25 revenue budget (Appendix B)

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

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

(iv) Approve the Capital Programme 2024/25 to 2026/27 (Appendix E) and that any marked with an asterisk can proceed without further reference to Cabinet or Council.

(v) Approve the proposed use of Reserves as detailed in Appendix I that can proceed without further reference to Cabinet or Council.

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

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

(viii) The application of the current premium of 100% for all dwellings which are unoccupied and substantially unfurnished (empty dwellings) from a period of one year with effect from 1st April 2024.

(ix) The application of a premium of 100% for all dwellings which are unoccupied but substantially furnished (second homes) with effect from 1st April 2025; and

(x) That the Section 151 Officer is given delegated powers to implement the policy in line with the Council's requirements and any guidance given by the Secretary of State or regulation.

Reasons for Recommendations

1. The Council has a statutory responsibility to set a balanced Budget and Council Tax in advance of the start of the new financial year.
2. The report identifies that a balanced budget in 2024/25 can only be achieved by using £700k of General reserve funding.
3. 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, in particular the costs of meeting our statutory homelessness.
4. The Council is only able to increase Council Tax by a maximum of 2.99% without a referendum.
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 Council needs to manage its Capital Financing requirements carefully to avoid unnecessary and costly interest charges. Therefore, it has been necessary to reduce the aspirations for the Capital Programme accordingly, and the council will need to continue to maximise any potential Capital receipts.

Introduction

1. Local government continues to find itself in a challenging financial period for all concerned. The council is currently forecasting a budget deficit of £1.6m for 2023/24.

2. The budget cabinet meeting on 12th February 2024 is a key part of the budget setting process. The full council meeting on the 21st February 2024 is responsible for setting a balanced budget and determining the council tax.

3. Despite identifying substantial Priority Income and Expenditure Review (PIER) savings of £3.8m for 2024/25 these are insufficient to balance the budget without the further use of reserves.

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.

5. Whilst savings of £3.8m have been identified for 2024/25, there are also unavoidable increases in costs such as contractual obligation inflation increases and service demands that result in further use of the council's reserves being required.

6. If the recommendations in this report are approved by Budget Council, there will be an increase in the Borough's part of the council tax in 2024/25 of 2.99% which is the maximum permissible without a referendum.

7. If these recommendations are approved and the savings identified achieved, this will provide a significantly improved financial position for the council to the one previously reported as part of the Medium Term Financial Strategy to cabinet in November 2023.

8. The transformation savings and approach to potential shared service arrangements will be key to the success of the future operational delivery of some of the council's core back office services. This is why it is imperative that a business case with full costings be brought forward for discussion once a thorough discussion has taken place with the new political leadership.

9. Whilst some provision has been made in the Invest to Save Reserve for this initial work to commence it will need to be updated once that business case is approved.

10. Not all the grant figures are 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 2024/25. Precept figures will be presented to Budget Council once determined by East Sussex County Council, the Police and Crime Commissioner, and the Fire Authority.

11. For 2024/25 the deficit is estimated at c.£700k if all savings identified in the report are achieved. The council's historical savings performance is around 80% achievement. If that were to continue, then there would be an additional £775k worth of deficit to cover.

12. The minimum level of General Reserve Balance is recommended to be £4m, which is made up of the following:

    - £1.8m (10% contingency of total Net Expenditure based on 2023/24 Budget)

➢ £1.04m (20% Homelessness costs fluctuations)

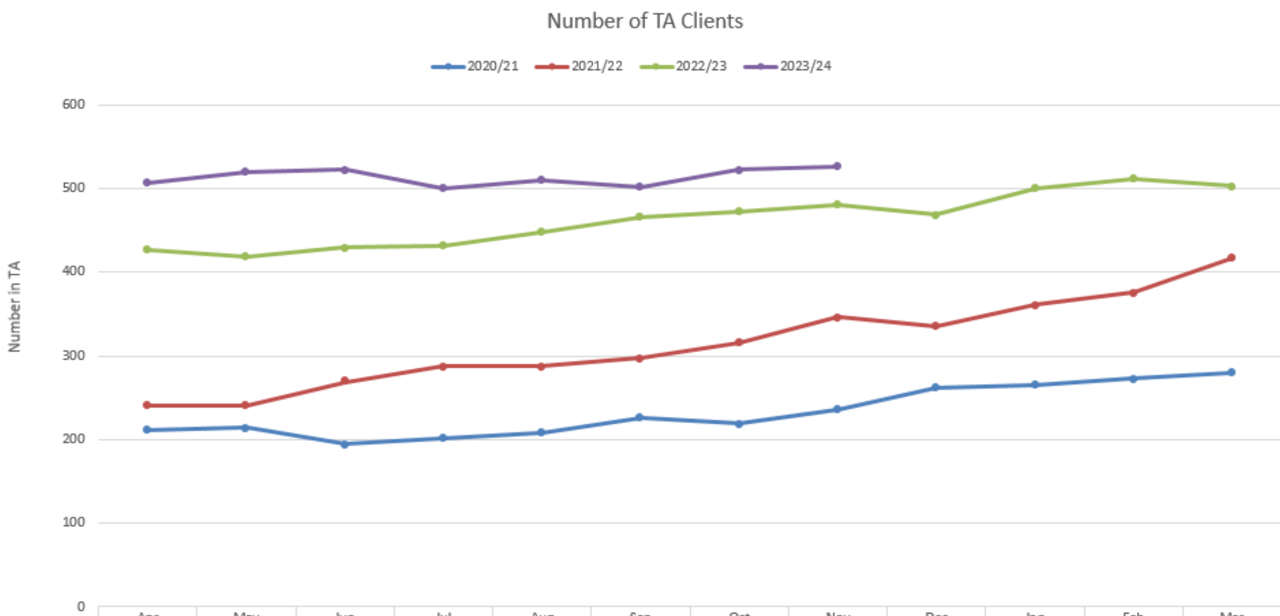
➢ £1.2m (Other unexpected / unforeseen events)

Total = £4.04m (say **£4m**).

13. As savings are built into the revenue budget for 2024/25 the potential risk of unachieved savings of £775k is taken into consideration as part of the 10% contingency above.

14. The number of people in temporary accommodation has stabilised this financial year, but a key driver of costs has been an increase in provider costs.

15. The graph below shows the demand for temporary housing and the growth over the past number of financial years and why it has been considered the Councils primary strategic focus.



	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
2020/21	211	214	194	202	208	226	220	236	261	265	273	279
2021/22	240	241	269	287	287	297	315	347	335	361	376	417
2022/23	426	418	429	432	447	466	472	480	469	500	511	503
2023/24	506	520	522	499	510	502	523	526				

Strategic Priorities

16. The council's strategic priorities have not yet been reviewed for 2024/25 in the light of the changing political position the corporate plan discussions have been put on hold until after the financial year has started and will then be reviewed and agreed accordingly.

17. Therefore, the updated Corporate Plan that would usually underpin and sit alongside the budget report is not yet ready for discussion but a reminder that the current years plan is as follows.

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

Financial Planning - Medium Term Financial Strategy

18. The Medium Term Financial Strategy report presented to cabinet in November 2023, provided indicative budget forecasts for the 4 year period 2023/24 to 2026/27. These have been updated within the budget papers attached.

19. 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.

20. 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.

(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 2024/25.

(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 useable earmarked reserves are consciously being reduced, to minimise the

impact on the General Reserves until some of the longer-term savings plans are brought forward.

A detailed review of Earmarked Reserves has taken place as part of this budget setting process 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 2021/22 and 2022/23 financial year highlighted some substantial areas of improvement and many of the recommendations included in the report have already been implemented in the current financial year with the rest set to be finalised in 2024/25.

(xi) 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. It is also looking to bring in new revenue streams around second homes and empty homes as detailed later in this report.

(xii) **Recognise the importance of partners in delivering cost effective solutions for services.**
As part of the new transformation programme (that will move the council to a new operating model) partners will be engaged in discussions about options and opportunities to deliver services differently.

21. 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

22. The Local Government Finance Settlement is the annual determination of funding to local government. The provisional settlement was finally announced on the 18th December 2023.

23. 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.

24. As part of that announcement this time, it was stated that the provisional settlement made available over £64 billion for local authorities in England, an increase of almost £4 billion or 6.5% in cash terms in Core Spending Power on 2023-24.

25. There was also an additional written statement announcement on the 24 January 2024 that the Government were providing significant additional funding to local authorities in England, worth £600 million. This includes £500 million of new funding for councils with responsibility for adults and children's social care (i.e. not district councils), distributed through the Social Care Grant.

26. Taking into account this new funding, local government as a whole in England will see an increase in Core Spending Power of up to £4.5 billion next year, or 7.5% in cash terms, an above-inflation increase, rising from £60.2 billion in 2023-24 to up to £64.7 billion in 2024-25 according to the figures released as part of that statement.

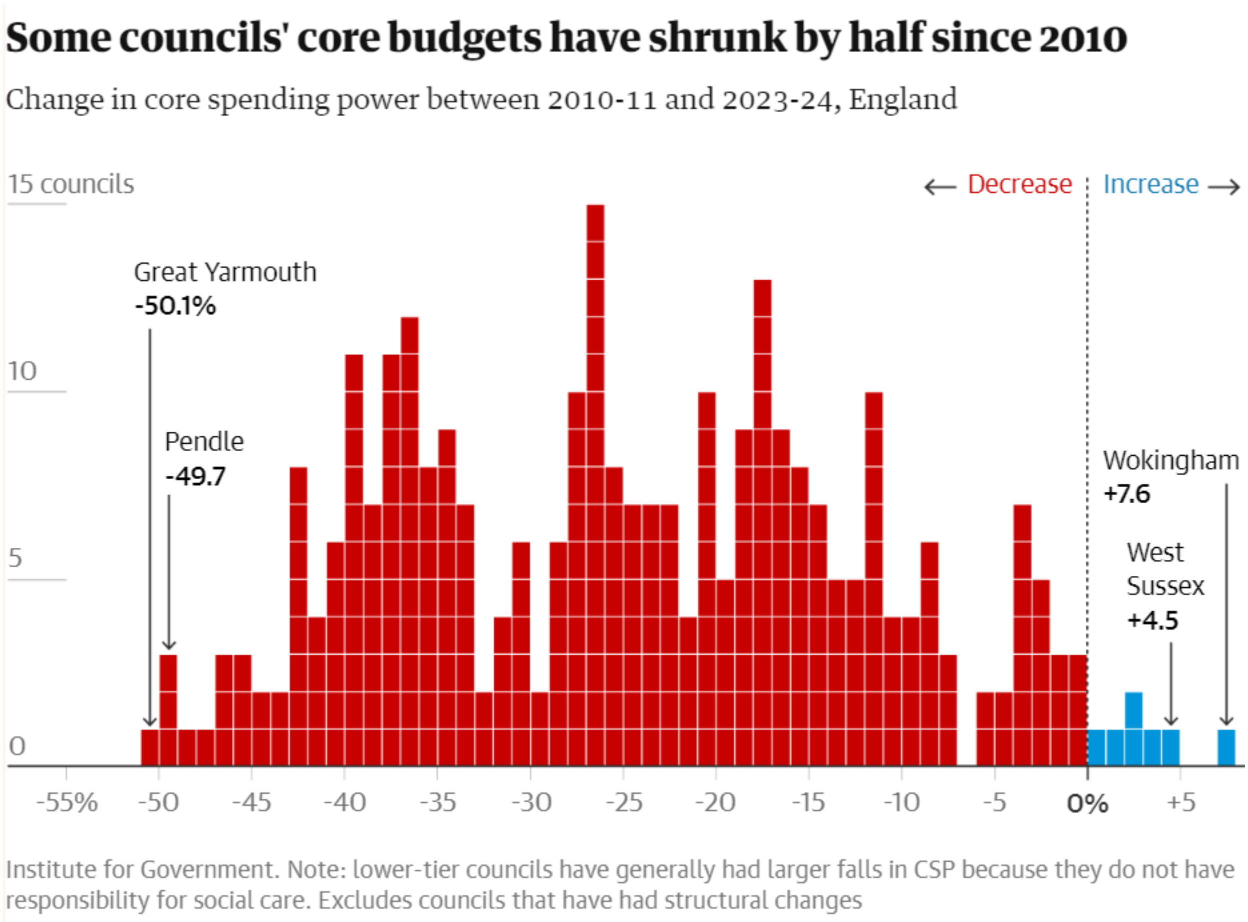
27. It is highly unusual for Government to announce a second wave of substantial funding in this way and is a direct result of the continuing pressure being placed upon it by the councils who are struggling to cope financially with the greater demands placed upon them.

28. In terms of understanding how these announcements impact on Hastings Borough Council's financial position, it must be remembered that the greatest financial burden for this council is the costs of meeting our statutory homelessness duties. Homelessness costs were not addressed significantly in either of the settlement funding announcements made. The Autumn Statement did announce a temporary increase to Local Housing Allowance rates from April 2024, which whilst welcome is unlikely on its own to significantly address the cost imbalance in the local housing market.

29. Whilst additional funding to the sector as a whole is welcome, regrettably Hastings Borough Council will not see the benefit from the majority of the additional funding as it is being directed to those with responsibility for adult and children's social care responsibilities, which locally is East Sussex County Council.

30. A recent news article in the Guardian (Monday 29 January 2024) highlights the financial struggle that the council has when it comes to central funding and grant determination:

    "Institute for Government figures show the core money available to councils after the recently announced extra £600m uplift will still be 10% lower than in 2010-11. Many councils will be even worse off: Great Yarmouth's core spending power more than halved between 2010-11 and 2023-24, followed by Hastings (-49.5%), Hyndburn (-49.5%), and Burnley (-48.3%). These councils are all lower-tier councils with no responsibility for social care but still face pressures on other Services".



31. The impact of the January announcement on Hastings Borough Council is that the minimum funding guarantee is to be increased by 1% from 3% to 4%. For HBC this amounts to an estimated additional income from the figures included in this report of c.£140k. Even with this additional amount our overall settlement will be less than standstill when taking inflation pressures into account.

32. An extract table from the information provided to Council's around their funding allocations can be found below:

	Core Spending Power	Dwellings As At September 2023[1]	Core Spending Power per dwelling	Settlement Funding Assessment[2]	Compensation for under-indexing the business rates multiplier	Council Tax Requirement excluding parish precepts[3]	New Homes Bonus	Funding Guarantee	**Core Spending Power**	Core Spending Power per dwelling	% change in Core Spending Power from 2023-24 to 2024-25
	£ millions		£	£ millions	£ millions	£ millions	£ millions	£ millions	**£ millions**	£	
	2023-24		2023-24	2024-25	2024-25	2024-25	2024-25	2024-25	**2024-25**	2024-25	
Hastings	**14**	44,168	318	5.5	0.8	8	0.1	0.3	**14.7**	333	4.70%

33. According to the figures above Hastings Borough Council has seen an increase in its Core spending Power of 4.7%.

34. However, the Appendix B extract below provides a list of all funding for Hastings as a council and the real change impact from last year to this year's figures.

-	2023-24 Projection £000's	2024-25 Projection £000's	£'000 Change from previous year
From Collection Fund - Council Tax	(7,680)	(7,933)	(253)
2nd Homes Tax	0	(52)	(52)
From Collection Fund - Business Rates	(2,624)	(2,354)	270
Revenue Support Grant	(1,309)	(1,395)	(87)
Lower Tier Services Grant	(154)	(315)	(161)
New Homes Bonus	(16)	(89)	(73)
Council Tax Support Admin Grant	(237)	(237)	0
Housing Benefit Admin Grant	(425)	(437)	(12)
NNDR (Surplus) / Deficit	1,619	1,208	(411)
NNDR Pooling	(80)	(65)	15
Business Rates Section 31 Grant	(3,009)	(2,065)	944
Council Tax Surplus	(207)	(255)	(48)
Contribution To General Fund	(14,121)	(13,989)	132

35. Whilst the government settlement permits the council to increase council tax by up to 2.99%, (historically 1.99% but last year was increased to 2.99%) which is welcomed, this does not go anywhere near solving the funding gap many local authorities, including this one is suffering from.

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

37. The RSG amounts to £1.395m in 2024/25 (£1,309m in 2023/24) – and represents an increase of £87k (7%).

38. The council also receives a Lower Tier Services Grant amounting to £315k provided to authorities for services such as homelessness, planning, recycling and refuse collection, and leisure services. For 2024/25 the grant amounts to an increase of £161k (105%).

39. 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 2024/25 amounting to £89k is £73k more than the previous financial year.

40. 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 2024/25, like that for 2023/24, is a "one-off" with no ongoing legacy payments.

Funding from Business Rates

41. 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).

42. 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.

43. 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.

44. 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.

45. 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.

46. 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.

47. 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

48. As at the end of January 2024, the net amount due for the year amounted to £19,06m. This is £4.4m less than the £23,5m that was originally budgeted for in the 2023/24 Financial Year.

49. Of this £19.06m, £16.7m (89.05%) had been collected by the end of January 2024. This is 5.1% higher than that collected at the same stage last year. In cash terms, using these percentages, this represents £1.1m more than at the same stage as last year.

Business Rates Income – 2024/25

50. 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.

51. 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 and has historically resulted in a large deficit on the Collection Fund of £953k. 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.

52. The rateable value (RV) of business properties at the start of the 2024/25 year is forecast to be £65.2m. However, given the level of appeals, non-payments, and bad debt levels, forecasting income levels for 2024/25 and beyond remains highly challenging.

53. Multiplying the rateable value figure by the rate poundage and after charity and other reliefs the Council would collect some £21.8m in theory of which the Council share is c. 40%.

54. 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 £6.2m in 2024/25.

55. The estimate of the business rate income collected that will be retained by the Council in 2024/25 as a result of entering into the Business rate pool amounts to £2,4m. In addition there is Section 31 money from the government which brings the total expected income from business rates to around £4.5m in total. The split between Section 31 grant monies and direct collection remains variable.

56. The Council will remain in the pooling arrangement within East Sussex for 2024/25 as there is still considered to be a significant benefit.

External funding – Benefit and Council Tax Administration Grant

57. The Benefit Administration Grant amounts to £425k in 2023/24 and the 2024/25 grant is forecast to be £437k. Details of the Council Tax Support Administration Grant receivable in 2024/25 is still awaited (£237k in 2023/24).

58. 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.

Fees and Charges (Including Car Parking)

59. 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.

60. A separate report on fees and charges was presented to the cabinet in December 2023, with the recommendation that fees and charges were increased broadly at 10% unless otherwise stated.

61. In that report it included an estimate for the additional revenue that fees and charges being increased would generate, and after detailed budget workings the figure that can be attributed to this is expected to be £344k.

Investment and Borrowing

62. The conditions for borrowing from the Public Works Loan Board (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.

63. 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.

64. The capital programme (if approved) has seen a significant scaling back as part of the plan to reduce the council's longer term financial commitments and provide a more stable and achievable programme in future years whilst reducing the financial burden in interest payments.

65. The decision at cabinet on the 29 January 2024 to agree to the sale of the land at the Cornwallis site, and the removal of the liability on the council to fund the construction of a new hotel has had a significant impact on the size of the capital programme. The council's borrowing requirements and Treasury Management Strategy would normally be considered at the same time as the budget. However, these will now need to be recalculated in the light of this significant change and will be bought forward instead to a meeting of the Audit Committee, where the discussion can be informed by latest forecasts.

66. 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.

67. 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.

68. As part of the reductions in capital programme expenditure MRP forecasts and estimates have also been significantly reduced compared to the figures included in the previous Medium Term Financial Strategy (MTFS) forecasts.

69. The latest estimates now show a saving in MRP and borrowing interest payments (previously included in the MTFS) as being a saving of £1.4m in 2024/25 and £3.6m in 2025/26 & 2026/27 respectively. These figures have also been included in Appendix K as these are updated compared to those previously estimated as part of the Savings proposals agreed at council in December 2023.

Budget Assumptions

70. The draft budget contains a number of assumptions and estimates in order to underpin the figures and build-in a prudent amount for changes and fluctuations that are inevitable when trying to predict the future fiscal and economic landscape.

71. Pay awards in the public sector have been much publicised of late, with protracted national negotiations ongoing for large parts of the current financial year. The pay award agreed in 2023/24 for staff was £1,925 (or 3.88% as an equivalent).

72. Given the need to be prudent around where the negotiations could end up in 2024/25, the budget has allowed for a 5% increase in pay award for staff in 2024/25 and then 3% for the subsequent years. This equates to c.£160k per 1% change in 2024/25.

73. The employer's pension contribution rate included in the budget workings for 2024/25 is 21.55%.

74. The budget also includes built-in contractual and general inflation increase estimates of 3% each year. Despite industry experts estimating that inflation and interest rates will start to drop towards the winter of 2024, these are in no way certain due to the political landscape around a general election and economic uncertainty around housing and fuel costs.

75. A further factor for the council to consider is the planned changes in relation to food waste collection. The potential impact that these legislative changes will have on the council's budget and operational team is not fully understood at the time of writing.

76. The Council remains committed to paying the accredited living wage, and the UK Government announced that the minimum wage, also known as National Living Wage, will increase to £11.44 per hour for workers over 21 from April 2024. The minimum wage is currently set at £10.42 per hour for workers over 23, and to £10.18 per hour for workers aged 21-22 of £10.90 per hour.

Universal Credit and Benefit Administration Grant

77. 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).

78. 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.

79. 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

80. 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.

81. It is recommended that the council adopt the existing scheme subject to the determination of allowances being delegated to the Chief Finance Officer in line with prior year practice.

82. 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.

83. It is recommended that the council reviews the affordability of the scheme during the early part of 2024/25, as significant levels of consultation and lead in times for software changes are required when amending schemes such as this.

Staffing, Information Technology and Property

84. 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.

85. 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 strategy for workforce development and sufficient funding will be retained within the budget to fully finance the training and development programme.

Grants

86. 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. AFEO fund (Accommodation Fund for Ex Offenders).

87. 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.

88. **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.

89. **Levelling Up Fund -** The government announced a levelling up Fund worth £4 billion for England for investments in infrastructure.

90. **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.

Revenue Outturn 2023/24

91. Since determining the budget in February 2023, the Council's budget and its limited resources have continued to be impacted by the effects of homelessness, and other expenditure pressures.

92. The latest forecasts for the current financial year predict an overspend of c.£1.6m, against a net service expenditure budget of £14.9m.

93. As can be seen in the following extract from the latest finance monitoring report there are three main areas of overspend highlighted.

Head of Service Area	2023/24 Budget	2023/24 Forecast Outturn	Variance	Trf to / (Use) of Reserves	2023/24 Outturn Variance
	£	£	£	£	£
Chief Finance Officer / S151 Officer	2,622,200	3,500,764	878,564	0	**878,564**
Chief Legal Officer / Monitoring Officer	985,990	946,340	(39,650)	0	**(39,650)**
Commercial Services and Development	931,100	1,021,603	90,503	(115,800)	**(25,297)**
Community and Regulatory Services	861,830	919,760	57,930	(21,460)	**36,470**
Environment and Operations	4,990,980	5,243,686	252,706	(186,650)	**66,056**
Housing	6,426,235	7,247,947	821,712	(9,900)	**811,812**
People and Business Support	726,050	842,260	116,210	(95,200)	**21,010**
Strategic Programmes	2,375,080	2,514,640	139,560	150,000	**289,560**
Property and Commercial Assets Manager	(4,992,890)	(5,342,070)	(349,180)	0	**(349,180)**
Total Service Expenditure	**14,926,575**	**16,894,931**	**1,968,356**	**(279,010)**	**1,689,346**

94. Chief Officer / S151 Officer is forecasting a £878k overspend which is due predominately to underachievement of savings, in particular Housing that were previously built into the budget of £1m.

95. Housing is also forecasting £811k overspend which is due to Homelessness (Temporary Accommodation) despite the number of households in TA remaining broadly stable. The key driver of additional spend has been an increase in provider costs linked to inflation, which had not been previously budgeted for. This has been corrected as part of the budget setting process in 2024/25 to avoid a repeat.

96. Strategic Programmes is forecasting to be £289k overspent which is mainly as a result of reduced income in Development Management and additional costs for Dangerous Structures such as Battle Road.

97. Property and Commercial continue to provide an offsetting financial benefit due to the additional rental income obtained in the financial year.

Capital Expenditure (2023/24)

98. There have been a number of significant amendments proposed as part of this budget report to the capital programme for 2024/25.

99. However, during 2023/24 itself there have been minimal changes to report during the current financial year, although these figures will be revised in light of recent decisions taken at cabinet on 29 January around the deletion of the hotel construction costs from the programme.

Revenue Budget 2024/25

100. Appendix B provides full details of the council's revenue budget, but the total direct service expenditure in 2024/25 is estimated at £17.6m. This compares to an estimated outturn of £16.8m for 2023/24. The total direct expenditure for the council decreases to £16.0m in 2024/25 once Savings (Appendix K) and fees and charges income are included.

101. There has been a considered effort to reduce the demand on the general reserve by proactively using Earmarked Reserves. This is explained in more detail later in this report under the reserves section.

102. Despite allowing for a 2.99% increase in Council Tax and an increase in the Council tax base, as well as including the new proposed Council Tax Premiums, the total funding to be met from Grant and the Collection Fund is estimated at £14.0m (down slightly from £14.1m in 2023/24).

103. A balanced budget can be achieved with the use of £743k of general reserve in 2024/25.

104. As part of this year's budget process reductions of £3.8m have been identified for 2024/25. Please see Appendices K and L for details.

105. Priority continues to require the council to concentrate on achieving the savings identified in the PIER process as listed in Appendix K. In addition, it will be important to the councils financial sustainability to enhance and preserve existing income streams, continue with asset sales, recovery of debt, and renegotiating contracts for more favourable terms wherever possible.

106. The PIER process will continue in 2024/25 and the immediate priority will involve understanding the profile and confidence levels in savings forecasts as well as making a decision on what operational financial restrictions may be required into the new financial year.

Budget 2024/25 and beyond

107. The Local Government Settlement in December provided funding details for 2024/25 only. Based on the current assumption of no new monies being available to District Councils overall, the following section makes a best estimate of future budget shortfalls.

108. The future projections are identified in more detail in Appendix B. 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.

Council Tax & Council Tax Premiums (Empty Homes & Second Homes)

109. As at the end of December 2023, the net amount due for the year amounted to £61.0m and £58.9m (96.5%) had been collected. This was 5.3% more than that collected at the same stage last year and is some 6.1% above the 2021/22 levels.

110. The tax base for 2024/25 has been recalculated and is some 2% higher than 2023/24 as a result of projected additional new properties. The effect is to increase the tax base from 26,473 to 26,728 (an increase worth £306,000 p.a. to HBC).

111. It is again open to the council to increase council tax for 2024/25. One percent on the council tax will equate to around £75,000 of additional income for this Council on the revised tax base.

112. For 2024/25 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.

113. The figures in the appendices (Appendix C available at budget council) show an indicative 2.99% increase for Hastings BC, a 4.99% increase for ESCC, £5 for the Fire Authority and a £15 increase for the Police and Crime Commissioner. (The actual increases will be advised by the respective authorities in due course).

114. Council Tax is at £290.09 p.a. (Band D – Hastings BC element) and a 2.99% increase for 2024/25 would take this to £298.76 p.a. This is a £8.67 per annum increase for a Band D property – a 17p per week increase (in respect of the Hastings Borough Council element).

115. The Council will also be recommended to change the council's approach in respect of certain discretionary areas within council tax legislation.

116. In the main, the changes will take effect from 1 April 2024, however the introduction of the Levelling Up and Regeneration Act 2023 will allow the council to make further amendments to the levying of council tax premiums within the town with effect from both 1 April 2024 and 1 April 2025. Full details are provided in Appendix X.

117. The changes are provided by the Levelling Up and Regeneration Act 2023 which has recently received Royal Assent. The changes within the Act essentially fall into two distinct parts namely:

   (a) To bring forward the period from two years to one year when an unoccupied and substantially unfurnished dwelling (empty dwelling) can be charged a premium of 100%. All other empty dwelling premiums remains unchanged, namely:

      - A premium of 200% where dwelling has remained empty for a period of 5 years or more;

      - A premium of 300% where dwelling has remained empty for a period of 10 years or more; and

   (b) To enable the charging of a 100% premium for any dwellings which are:

      - No one's sole or main residence; and

      - Substantially furnished.

118. When determining its policy, each billing authority has to decide the level of discount (if any) to be granted and the amounts (percentage) of any premium by the 31 March prior to the financial year in which it wants to introduce the changes.

119. Where a change is proposed, there is a requirement to determine the level of any premium and a decision is now required to be made by full Council under Section 11A, 11B and the new 11C of the Local Government Finance Act 1992.

120. The proposed changes if agreed would be expected to generate additional income for the Council (along with the preceptors East Sussex County Council, East Sussex Fire & Rescue Service and the Police). All preceptors have been consulted and agree with the proposal as part of this process.

121. Hastings' share of the estimated additional income is listed in Appendix X over the lifetime of the MTFS, however for ease of reference the sums that would be generated for the next two financial years are £52k (2024/25) and £178k (2025/26) respectively.

122. In line with the legislation, if the recommendations are accepted by Budget Council, details of the resolution would be published in at least one local newspaper within 21 days of the decision.

123. Officer's are therefore recommending that these proposals are agreed as outlined, and for the reasons provided in Appendix X.

Asset Sales - Capital Receipts

124. The council will continue with its strategic plan for its assets. As a result it 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.

125. 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.

126. 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 F identifies the capital financing/borrowing requirement over the life of the capital programme.

127. 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 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.

128. The council has been proactive at bringing forward asset sale proposals during the current financial year to reduce the financial pressures around borrowing costs. Details of the expected capital receipts are listed in Appendix G and is estimated to potentially generate c.£4.6m in 2024/25.

Capital Programme and Borrowing

129. The capital programme is detailed in Appendix E. The gross capital programme spend for 2023/24 is now estimated to be some £17.07m (Original budget £22.3m).

130. For 2024/25 there have been significant and welcome financial relief after reductions in the estimated capital programme budget.

131. The combination of anticipated additional capital receipts from asset sales coupled with reduced expenditure for schemes such as Cornwallis and Mayfield E sites have reduced the capital financing and borrowing requirements substantially.

132. The draft capital programme shows the status of the schemes
c denotes schemes which are committed
n denotes schemes that are new

133. Should the council seek to make any amendments including any additional new schemes, then with a proper business case to support any additional borrowing requirements, the Council's Treasury Management Strategy and the Capital Strategy will need to be further reviewed and approved by full council.

134. 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 and as has already been noted previously within this report the strategies will need to be updated to reflect the substantial reductions in the capital programme.

Investment in Council Assets

135. 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.

136. 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.

137. As part of the savings proposals it was agreed to reduce the contributions to the reserve for a period of three years which will add additional pressure on the assets. This will be offset by the introduction of an Asset Maintenance reserve which will have additional contributions for each asset identified through any additional income received over and above costs of running that particular service or Asset.

Reserves

138. 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.

139. 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.

140. As part of the continued commitment to become more financially resilient and to extensively review all areas of finance including the council's reserves, a number of changes and revisions have been proposed.

141. The Repairs and Renewals reserve will focus primarily on Health and Safety matters for the next three years and as a result the reserve will have reduced contributions (as agreed as part of the budget savings process).

142. This will also allow a new reserve to be created and developed around the maintenance of the councils assets as part of the new Asset Management Strategy and this will be in conjunction with a fees and charges strategy that aims to incorporate costs in a more transparent way.

143. There are also proposed changes to the IT reserve to allow for business case approach for all projects (which aligns with other areas of the organisation) and will link in with an IT strategy which in turn is linked to the new Corporate Plan and new operating model when agreed.

144. The General Reserve Balance is predicted to be £6.8m (2023/24), £6.05m (2024/25), £6.5m (2025/26) & £5.72m (2026/27). This is a considerably improved position than that which was included in the latest previous MTFS forecasts and was aided by the savings agreed in December 2023 (detailed in Appendix K).

145. The Earmarked Reserves will be subject to a full annual review as part of the previously agreed new Reserves Policy to ensure that allocations are still relevant and adequate for the councils corporate priorities and plan.

Climate Change

146. 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.

147. It is expected that the council's plans, policies, and objectives in this area will make greater calls on the available resources in the future.

Equalities and Community Cohesiveness

148. The equalities implications of the proposals are included in Appendix L. Councillors 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

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

150. 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.

151. 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) 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.

(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.

(iii) **Existing Services - Increased Demand**
Increased demand for public services – homelessness and temporary accommodation costs among others pose a significant risk to budget forecasts. It therefore 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 is not proposing any change to the scheme for 2024/25 but should consider options in the future.

(v) **Restructuring / Transformation Costs.** In order to make savings of the size still required , the council will need to consider what services it can provide and to what level for the areas outlined in Appendix K. In order to support that work and transition to a new way of working there needs to be sufficient resources set aside in order to achieve that outcome including financial as well as resourcing appropriately.

(vi) **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.

(x) **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.`

(xi) **Asset Disposals –** the identification and sale of surplus or underperforming assets remains crucial to funding the capital programme and minimising revenue costs and will be key to the Asset Management Startegy moving forwards.

(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.

Economic/ Financial Implications

152. The economic regeneration of the town remains a key priority for the council, and the Towns Fund and Levelling Up programmes 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.

153. 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

154. 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 services. The council seeks to minimise the employment impact wherever possible through redeployment and voluntary severance.

Anti-Poverty

155. The recommendation to 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.

156. 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, housing, and renewable energy – in support of the current corporate plan to address the pressing needs within the borough.

Consultation

157. A decision has been made to delay revising of the Corporate Plan until after the local elections in May 2024.

158. A consultation exercise was however carried in December 2023 to inform the decisions council made at its meeting in December 2023. The savings agreed then are set out in Appendix K, together with a number of revisions and updates made since then. Appendix K highlights the difference between the figures agreed previously and the updated figures.

159. The full Council meets to set the budget on 21 February 2024.

Timetable of Next Steps

Action	Key milestone	Due date (provisional)	Responsible
Budget Overview and Scrutiny		5 February 2024	Chief Finance Officer
Budget Cabinet		12 February 2024	Chief Finance Officer
Budget Council		21 February 2024	Lead Member for Finance / 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

Appendix A –	Section 25 Notice
Appendix B –	Forward Revenue Plan
Appendix C –	Council Tax & Business Rates
Appendix D -	Interest, MRP and Contribution to Reserves
Appendix E -	Capital Programme
Appendix G -	Land Disposal Programme
Appendix H -	Revenue Budget Summary
Appendix I -	Reserves
Appendix K -	Savings (updated)
Appendix X -	Council Tax Premiums
Appendix Z -	Glossary

Officer to Contact

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