Agenda Item No:

Report to: **Budget Cabinet**

Date of Meeting: 16 February 2015

Report Title: Revenue Budgets 2014/15 (Revised) and 2015/16, plus Capital Programme 2014/15 to 2017/18

Report By: Peter Grace (Head of Finance)

Purpose of Report

1. This report presents the revised revenue budget for 2014/15 and a budget for 2015/16. The revised budget for 2014/15 takes account of the known variations to expenditure and income streams that have occurred since setting the budget in February 2014.

2. In setting the budget for 2015/16, recognition of the very significant ongoing reductions in external funding for 2016/17 and beyond is being taken in order to achieve a degree of stability over the next two years. The report identifies that balanced budgets can be achieved in 2015/16 and 2016/17 using £430,000 and £480,000 respectively of reserves built up for this purpose. The forecast deficit for 2017/18 is some £1.4m. The alignment of the Council's available resources to its priorities requires the continuing review of services during the next 12 to 18 months in order to achieve balanced budgets in the years beyond.

3. Your meeting is a key part of the budget setting process. Full Council on the 25 February 2015 will be responsible for setting a balanced budget and determining the Council Tax. 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 2015/16 of 1.9%.

Recommendations

Cabinet is recommended to:-

(i) Approve the revised revenue budget for 2014-15 (Appendix A).

(ii) Approve the draft 2015/16 revenue budget (Appendix A)

(iii) Approve a 1.9% increase in the Borough Council's part of the Council Tax.

(iv) Approve the Coastal Space initiative, a grant of £875,000 being payable, as detailed in Appendix P and the main body of the report.

(v) Approve the Capital Programme 2014/15 (revised) to 2017/18 (Appendix R).

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

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

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

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

(x) Agree work on Priority Income and Efficiency Reviews (PIER) should continue, and where possible identify a sustainable budget for a period in excess of 1 year. A mid-year review, for members and officers, to be undertaken in the light of the continuing severe government grant reductions.

(xi) Approve the revised parking charges as per Appendix M from April 2015 with no further increase for a period of 24 months.

(xii) Approve the detailed recommendations in Appendix N, which relate to the setting of Council Tax in accordance with Sections 31 to 36 of the Local Government Act 1992.

Reasons for Recommendations

1. The level of government funding to the Council continues to fall and is expected to carry on falling until at least 2018-19. Since 2010-11 funding has been reduced by more than 50% in cash terms on a like for like basis.

2. Major reductions in funding in 2015/16 are set to continue to 2018/19 and possibly beyond and this will impact heavily upon the Council's ability to provide services and grants across all areas of existing activity. To ensure key corporate priorities are achieved it remains imperative that the limited resources available are properly targeted.

3. 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.

4. The Council is exposed to a much greater degree of volatility in the level of funding it receives through Non Domestic Rates. In addition it is also exposed to a much higher degree of volatility in terms of Council Tax Support claims – the Council now receiving an upfront sum as part of the annual grant settlement rather than reimbursement of actual costs.

5. Further reductions in grant funding have major implications for the Council and as such work needs to continue to identify and make savings in order to produce balanced budgets in 2016/17 and beyond.

Introduction

1. The Comprehensive Spending Review 2010 identified that real term reductions in local government grant funding would be some 28% over a four year period. For Hastings BC the reductions in grant funding over the period ending March 2016 will have exceeded 50%. The Chancellor's 2014 autumn statement made it clear that significant funding cuts will continue for many years to come.

2. On a national basis significant public spending cuts continue to be made, which along with reduced levels of benefit payments flowing from the welfare reforms will impact heavily on individual households. Lower levels of disposable income may result in even more pressure on Council services such as Housing and Revenue Services.

3. The Revenue Budget Forward Plan produced twelve months ago forecast that there would be a deficit in 2015/16 of some £1.8m. Throughout the year Directors and Heads of Service in conjunction with lead members have been identifying and implementing efficiency initiatives to assist in addressing the financial position for 2015/16 and 2016/17 in particular (a two year budget).

4. From information supplied with the government grant settlement, the reduction in the Settlement Funding Assessment for Hastings BC in 2015/16 is 13.6% or £1.137m. With the level of government grant continuing to decrease at such significant levels in the years ahead, and the limited ability to increase Council Tax or increase charges, the Council will need to make further substantial savings in order to produce sustainable balanced budgets in 2016/17 and beyond.

5. The Council's external auditors have commended the Council on its approach to financial management over the last few years and its approach to maintaining and enhancing reserves whenever possible. This approach has helped the Council in its transition to date and the continuation of this approach is proposed.

Strategic Priorities

6. **The Council's strategic priorities have been refreshed for 2015/16 in the light of consultation and the continuing challenges that the Council and the community face. They are:-**

a) **Economic & physical regeneration:** To secure economic & physical regeneration that produces high quality new developments while preserving the best of our heritage, high standards of education and training, road & rail improvements and high-speed broadband, thereby creating economic growth and rewarding jobs, particularly in tourism, creative industries, and high-tech manufacturing & research.

b) **Cultural regeneration:** To contribute to the regeneration of the borough through a rich cultural programme that appeals both to local people and visitors, extending, broadening and promoting the borough’s cultural activities to establish Hastings as a nationally and internationally recognised centre for arts and culture.

c) **Intervention where it’s needed:** To make full use of our available powers and sanctions to tackle anti-social behaviour or practices, including poor housing, eyesore properties, unauthorised development, derelict land, fly-tipping and dog fouling.

d) **Creating decent homes:** To facilitate the supply of secure, affordable and well-designed homes, through strategic planning policies, planning conditions, regulation of the private rented sector, tackling and eliminating bad landlords, and by working with social housing providers.

e) **An attractive town:** To maintain visually interesting, well-maintained, uncluttered, clean and functional urban public spaces, especially along the seafront and in our town centres, integrated with high quality protected green spaces accessible to all

f) **A greener town:** To promote practices that minimise our carbon footprint through our policies and our own operations, protect and enhance biodiversity, and limit damaging consequences of human intervention on the natural environment.

g) **Transforming the way we work** – To maximise the benefits provided by new technology, to take opportunities for smarter ‘One Team’ working and continue our drive to be more Customer First focused and efficient in the design and delivery of services.

Financial Planning - Medium Term Financial Strategy

7. The Medium Term Financial Strategy approved in November 2014 provided indicative budget forecasts for the 3 year period 2015/16 to 2017/18.

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

   That robustness is built upon a foundation of key principles:

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

(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.

(iii) To continue to identify and make efficiency savings

(iv) To review fees and charges comprehensively as a means of generating additional funding for re-investment in priority services.

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

(vi) To ensure sufficient reserves are maintained.

(vii) To ensure value for money is achieved in the delivery of all services and that the Council seeks continuous improvement of all services.

(viii) The objective is to 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.

(ix) The importance of partners in delivering cost effective solutions for services is recognised.

The Key Factors Impacting on the Budget

Business Rates

9. 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 for 2015/16 the Council receives details of Revenue Support Grant (RSG) and the Business Rate Baseline Funding level (expressed as Baseline Need). The two figures effectively make 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 received for this element of the settlement i.e. the level of RSG is guaranteed throughout the year whilst the business rate element is not.

10. To fund the Baseline Need element, the Council has an expected level of business rates (or National Non Domestic Rates (NNDR)) that is to be collected. Due to differences between Baseline Need and the level of business rates actually collected there is a further budget adjustment required.

11. For Hastings with a Baseline Need that is lower than the Business Rate Baseline a Tariff is paid to central government. (Levy/Safety Net). For 2015/16 the Business Rate Baseline for Hastings has been determined at £8,821,803, whilst the DCLG calculation of the baseline funding level amounts to £3,495,559 – thus a Tariff of

£5,326,244 is payable. The scheme also has a damping mechanism in place to limit individual gains and losses

12. The Council is required to make an annual assessment of the income it expects to collect from business rates, and to provide these figures to government, East Sussex County Council and the Fire and Rescue Authority who each receive a share of the actual rates collected. The estimate of the business rate income collected that will be retained by the Council amounts to £3,022,000.

13. The picture for 2015/16 and beyond is further complicated by elements of business rates being reimbursed separately by central government e.g. extension of 100% relief for small businesses, the grant of up to £1,500 for shops and cafes towards business rate costs for 2015/16 and the limitation of the business rate multiplier to 2% (the difference between RPI and the 2% being reimbursed – compounded by last year's increase). For 2015/16 a sum of £479,000 (estimate) has been allowed for - payable under Section 31 of the 2003 Local Government Act.

14. The rateable value (RV) of business properties at the start of the 2015/16 year is forecast to be some £56.6m. A positive change announced in the autumn statement will limit the period for which rating appeals can be backdated in the future and will hopefully ensure greater certainty within the income streams. However given the level of appeals, forecasting income levels for 2015/16 will remain challenging.

15. Business rates and the levels of appeals/ growth/ decline will continue to impact significantly on the Council's level of funding and the risk that the Council faces in terms of income volatility.

16. The application to government to establish a Business Rates Pool has been successful. This is a very positive result for the Councils within East Sussex and will result in monies that would otherwise be paid to the government in terms of a levy being retained within East Sussex. Hastings BC's share is estimated at around £79,000 in 2015/16.

External Funding – Annual Grant Settlement

17. The 2015/16 provisional finance settlement was announced on the 18 December 2014. The settlement provides details of the Revenue Support Grant and the levels of Business rates that the government expects councils to retain.

18. The final settlement figures have now been confirmed at the start of February 2015. A major change in funding recently advised (separate to the grant settlement) relates to Discretionary Housing Payments. A funding reduction has seen the national pot reduced from £165m to £125m – a single year cut of 24%. The Council's own allocation has been reduced from £327,607 to £230,368 a reduction of £97,239 - representing an even greater cut of 30%.

    The Council spent the whole of its £320,000 allocation last year (2013/14) helping the most vulnerable in the community and will do so again in 2014/15. So far this year £291,000 out of the £327,000 has been committed in respect of 2,155 cases.

19. In brief the annual grant settlement figures for 2015/16 were in line with overall expectations in the Medium Term Financial Strategy, with the Efficiency Support

Grant for 2014/15 (£975k) being included in the core settlement for 2015/16.

Summarised Grant Position

20. The table below looks to compare the level of grants received from 2010/11 (the year before the Comprehensive Spending Review). The change in the way councils are being funded from 2013/14 onwards makes comparison slightly more difficult. The figures below are all based on cash and exclude the effects of inflation (the inclusion of which would increase the % reductions even more).

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 (Est) £m	2016/17 (Est) £m	2017/18 (Est) £m
Area Based Grant	3.6							
Formula Grant	9.1	7.8	6.8					
NDR/ Revenue Support Grant (excluding estimate of rolled in grants)				6.4	5.0	5.2	4.7	4.2
New Homes Bonus		0.2	0.4	0.5	0.9	1.0	1.1	1.1
Transition Funding	0	2.8	2.2	0	0	0	0	0
Efficiency Support Grant				1.0	1.0	0.1	0	0
Total	**12.7**	**10.8**	**9.4**	**8.1**	**6.9**	**6.3**	**5.8**	**5.3**
Cumulative Cash Reduction		-1.9	-3.3	-4.6	-5.8	-6.4	-6.9	-7.4
Cumulative % Reduction		-15.0 %	-26.0%	- 36.2%	-45.7%	-50.3%	-54.3%	-58.2%

*Excluding Council Tax Freeze Grant, Homelessness Grant and Council Tax Support Grant in order to provide a clear comparison.

21. The table highlights a 50.3% reduction in cash grant funding over five years.

Efficiency Support Grant (ESG) and Revenue Spending Power (RSP)

22. In 2013-14 the Council, along with six other local authorities, submitted business plans in order to qualify for a new grant – the Efficiency Support Grant. This was put in place for those authorities losing high percentages of their grant. This was worth some £1.218 million (£975,000 plus 25% bonus) to the Council in 2013/14, with a further sum of £975,000 being paid in 2014/15.

23. The government announced in the provisional local government settlement that the safety net mechanism for authorities whose Revenue Spending Power (RSP) reduced by more than 6.4% (previously 6.9%) would be in place for 2015/16.

24. The “Revenue Spending Power” was a concept the government introduced in 2011 and is calculated by the government as the sum of:-

Council Tax Requirement
Specific Government Grants e.g. Council Tax Freeze Grant, New Homes Bonus

Government funding – Settlement Funding Assessment

25. Twenty authorities are entitled to receive Efficiency Support Grant in 2015/16 (nine in 2014/15). Hastings BC is one of the 20 that can apply for the grant that is estimated at some £102,000 for 2015/16 (RSP reducing from £15.9m in 2014/15 to £14.9m in 2015/16 representing a 6.4% reduction – following the inclusion of the ESG).

26. There will continue to be uncertainty as to whether this level of safety net (6.4%) will remain in place for future years. Based on current assumptions on funding levels the Council would not be eligible for Efficiency Support Grant in 2016/17.

Income

27. The Council depends upon income streams and investment returns to balance the budget.

28. 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 and people’s ability to pay.

29. Off Street car parking charges were last increased in April 2013.For 2015/16 it is proposed to increase the charges in line with the inflation over the last two years (some 5%) and to agree no further increases fees until April 2017. A number of other revisions are also being made in respect of season tickets. There is no revision to the parking charges at the country park or sport centres. The revised charges are detailed in Appendix M.

In respect of most other fees and charges, with some exceptions (higher and lower), these have been increased by inflation or are set by statute.

Investment Interest

30. The low levels of interest received on balances looks set to continue for the next 12 months or so. Base rates are not expected to be increased in 2014/15, but may do so in 2015/16. Current assumptions, given the restricted counterparties list and short investment periods, are for investment returns of around 0.7% in 2014/15 and 2015/16. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

Inflation

31. This has been a major issue in the last few years, but has reduced over the last year. Inflation in November 2014 was 2.0% (Retail Price Index) whilst the government’s preferred measure CPI (Consumer Price Index) was 1.0% (since

dropping to 0.5% in December 2014). Comparable rates for November 2013 being 2.6% (RPI) and 2.1% (CPI).

32. The Council allowed 2.5% for inflation in 2014/15, but only increased budgets where contracts with inflation clauses were present. The same approach is being taken for 2015/16 to 2016/17.

33. Inflation, according to the Bank of England inflation report may continue to fall further in 2014/15 before increasing again, but is set to remain at or around the 2% target for late 2015/16 and 2016/17. Based upon these projections, general inflation has been estimated at 2% in 2015/16 and beyond, and where contracts are linked to CPI a rate of 1.2% has been allowed for in 2015/16 (the waste and street cleansing contract and the grounds maintenance contract are linked to CPI). Given the recent significant decrease in oil prices, the inflation projections made by government may well be revised as inflation falls further.

Public Sector Pay Settlement

34. The salaries budget together with national insurance and pension costs is some £12m - each 1% therefore equating to around £120,000 (around £110,000 on the General Fund).

35. For 2014/15 and 2015/16 a pay offer of 2.2% (plus a lump sum payment for some grades) has been accepted which commenced in January 2015 and applies until 31 March 2016 i.e. a 2 year pay settlement. In addition there are contractual increments (equivalent of around ½%).

36. For the purposes of the forward projections 1% increases in pay (plus increments) have been allowed for in 2016/17 and beyond.

Demand for Public Services & Universal Credit

37. There continues to be a high demand for public services especially housing benefits, homelessness.

38. Universal Credit is still set to replace the present benefit structure with changes in Hastings now expected to commence on 20 April 2015. The full implications, timescales and transition funding arrangements for people in Hastings have been very unclear for the last 18 months.

39. Meetings with the Department for Work and Pensions (DWP) commenced in January 2015 with new working age claimants without children claiming Universal Credit as from April 2015. Full migration for existing claimants will not take place, it has been advised, other than for a number of trial authorities, in 2015/16.

40. This remains an area of concern as it remains difficult to plan for the service in the longer term in respect of staffing and accommodation needs. As the Council's role diminishes funding will be withdrawn, and if the transfer of the functions does not match the funding available there is a clear financial risk to the Council – probably over the next 2 to 4 years. The government has previously made it clear that staff working for councils will not be transferred to government agencies and councils will be responsible for any redundancy costs that result. The role of councils in delivering Universal Credit will be clarified further over the coming months.

41. The level of Benefit Administration Grant receivable in 2015/16 has again been reduced – this time by more than 10% on a like for like basis. The cut in 2015/16 amounts to some £186,000 (reducing the total to £800,000), although an element of this relates to the transfer of the fraud team to the DWP (Single Fraud Investigation Service). This follows reductions of some £453,000 over the previous five years. Sizeable reductions are again expected in 2016/17 and in the years thereafter. The Council's expenditure in this area has likewise been reduced and a further service review is being undertaken.

Council Tax Support Scheme

42. It was announced in the spending review of 2010 that support for Council Tax (Council Tax Benefit) would be localised from April 2013 and expenditure (government funding) reduced by 10% (some £1.16m).

43. The Council produced a scheme (in conjunction with all Districts and Boroughs in East Sussex) which has sought to mitigate the impact on those who can least afford to pay Council Tax. A number of groups are protected by government e.g. pensioners, the impact thus falling on those of working age.

44. The Council considered the Council Tax Support scheme for 2015/16 at its meeting on the 22 October 2014. It was agreed by the Council that the scheme would remain the same for 2015/16.

45. The Council Tax Support Scheme continues to pose a significant financial risk for the Council. That risk being that should claimant numbers increase the additional costs now fall on the Council and its preceptors rather than the government. The Council will need to continue to retain adequate reserves for this purpose. However, there has currently been a reduction of some 3% in the numbers seeking assistance and this has resulted in fewer discounts being granted. This impacts positively on the calculation of the Council Tax Base as agreed at the Cabinet meeting in January 2015.

46. Given that overall levels of government funding continue to decline year on year, the Council is reviewing the scheme for 2016/17 and beyond. The review is once again being undertaken as a joint exercise with the other Borough and District Councils within East Sussex, thus minimising time and expense.

Pension Fund Contributions

47. The Council's contributions to the pension fund, managed by East Sussex County Council, are determined every three years following an actuarial valuation. A valuation was undertaken in 2013 with revised contribution rates payable from April 2014.

48. The rates payable by the council consist of the primary contribution rate plus 1% for future early retirements/redundancies (these are percentages of salaries of staff in the pension scheme), namely:

2014/2015 - 20.6% +1% + lump sum of £144,000
2015/2016 - 20.6% +1% + lump sum of £194,300
2016/2017 - 20.6% +1% + lump sum of £248,000

49. It should be noted however that the level of redundancies, early retirements, and transfer of services can significantly affect the valuation, and this will remain a risk to the council in 2017/18 and beyond.

50. Valuations are undertaken every three years with the next valuation therefore in 2016 with revised contribution rates becoming payable in April 2017.

51. Looking further ahead however the cost pressures are expected to continue to increase. Employers and employees National Insurance contributions look set to rise as a result of changes to the state pension scheme that are to be introduced in April 2016 and which end the ability to contract out of the state second pension scheme. This will result in a significant extra cost to the Council which may or may not be offset by government and new burdens funding.

Grants

52. The Council receives a number of revenue grants each year e.g. Housing Benefit Administration grant, but has also been very successful in attracting numerous “one off” type grants in the last couple of years e.g. Future Cities, and Active Women Programme, Regional Growth Fund, along with grants from Europe e.g. Answers in the Carbon Economy (ACE).

European Funding – the Council has been very successful to date in bidding for funding and is looking to bid for more funding in the future. Resources within Regeneration have been redirected to achieve this.

New Homes Bonus

53. This new grant regime commenced in April 2011. This is a grant that rewards the building of new houses and for bringing long term empty properties back into use.

54. The sum received in 2014/15 amounted to £886,315. In 2015/16 the Council will receive an additional £119,542 (£1,005,857 in total). The additional money is payable for a period of 6 years. Whilst the funding is welcome it is being top sliced on a national basis from the annual grant settlement – as such the Council is expected to lose out in the long term when compared to authorities which have much greater capacity to increase house numbers.

55. Councils are using the bonus in different ways, either to help balance budgets, strengthen reserves, or for one off activities that do not add to ongoing spending commitments. For Hastings, the new homes bonus has been fully utilised to help balance the budget in 2015/16. If the scheme ends there is a risk that the Council will lose significant levels of funding unless the grant distribution methodology is revised at the same time.

Revised Budget 2014/15

56. The revised 2014/15 Net Council Expenditure budget amounts to £17.097m, against an original budget of £17.292m (Appendix A).

57. The main variations are shown in Appendix C. These include:-

Development Control – reduced income (£50,000 Est)

It should be noted that a similar number of applications are being received, but fewer of them are of a major nature..

Estates/Properties – Increased Income (£90,000 Est)

58. It should be emphasised that in compiling the revised budget there remains some risk to the levels of income and investment income expected in the last quarter of 2014/15. The uncertainty and volatility around the business rate income, from amended valuations and appeals will be taken account of in 2015/16 accounts - a large deficit being identified on the Collection Fund. The volatility risk is mitigated to a degree by retaining sufficient reserves.

59. Going into 2015/16 the Council needs to maintain a level of reserves that can continue to ensure a managed transition to a much lower level of activity in the years ahead. The Efficiency Support Grant has been used to support initiatives that achieve real savings (Invest to Save). £368,000 was set aside for use in 2013/14 and beyond to support new "Invest to Save" initiatives. The additional 25% bonus received in 2013/14 was earmarked for similar initiatives along with a further £300,000 from the 2014/15 Efficiency Support Grant. Given that these sums have now been fully used or earmarked a further sum of £250,000 has been included in the revised 2014/15 budget following in year savings.

The use of this funding is considered fundamental to assisting the Council in the transformation to a lower spending authority – a business case is required before such money can be used. In February 2014 it was again agreed that the use of the monies be determined under delegated powers by the Director of Corporate Resources in consultation with the leader of the Council. It is recommended that the use of these additional sums is determined for 2015/16 and beyond under delegated powers by the Head of Finance in consultation with the leader of the Council.

60. It is recommended that any remaining underspends are transferred to reserves at year end.

Budget 2015/16

61. The core Settlement Funding Assessment for 2015/16 of £7,193,904 represents a £1,137,684 (13.6%) reduction from the 2014/15 settlement. The impact of the settlement in 2015/16 would have been more severe had it not been for the Efficiency Support Grant being included, along with the receipt of additional New Homes Bonus monies.

62. In addition to the reductions in central funding there are a number of costs that impact on 2015/16. These include pay increases, and inflation - particularly on large contracts.

63. The Council's total net expenditure in 2015/16 is estimated at £15.092m (amount to be met from Grant and Collection Fund). This compares to a revised estimate of £16.676m for 2014/15 and represents a decrease in expenditure of 9.5%.

64. The estimated balance on the Collection Fund at 31 March 2015 in respect of Council Tax is £250,000 (Hastings BC share), whilst there is an estimated deficit

of £816,000 (HBC share) in respect on business rates – a net deficit of some £566,000. This compares to a £37,280 net surplus that was available to support the 2014/15 budget. The very large deficit of £816,000 is in respect of the provision that is being made for business rate appeals in 2014/15 – this is recovered in the 2015/16 accounting period.

65. Redundancy costs fall within the year that the decision is made. £400,000 has been allowed for in 2014/15. Additional costs are also anticipated in 2015/16 beyond the £175,000 allowed in the base budget. A further £225,000 is included being funded from the Redundancy Reserve (i.e. £400,000 in total for 15/16).

66. There are a limited number of growth areas within the revenue budget.

i) Bathing Water Quality – an additional £50,000 in 2015/16 for various works to be undertaken by the council in conjunction with the major investments by Southern Water and the Environment Agency

ii) Housing Condition Survey – an additional £25,000 in 2015/16. This will support the updating of the Housing Strategy.

iii) Boundary review – an additional £6,000 has been allowed for as the council's contribution towards the East Sussex review.

iv) West Marina – an additional £40,000 in 2015/16 to generate a development proposal for the site.

v) White Rock/Summerfields area/Museum/Town Hall - £50,000 in 2015/16 and £50,000 in 2016/17 to review operational requirements and generate development proposals if practical.

vi) Housing Services – an additional £10,000 p.a. (recurring) for professional services to meet the cost of regular reviews and studies into respect of housing related issues and initiatives.

vii) The PIER saving previously identified in respect of the Conservation Officer post for 2015/16(£30,000) will be delayed twelve months given the ongoing work with Pelham Arcade in particular.

viii) Discretionary Housing Payments – an additional £50,000 of support for payments following the 30% drop in funding from the 2014/15 level as detailed in paragraph 18 of this report. This is to help ease the transition of the funding reductions and support those who are the most vulnerable in the community.

ix) Proposals for a selective licensing scheme and also for a social lettings agency have not been included within the budget. These are expected to break even – should the schemes receive Council approval.

67. In determining the Medium Term Financial Strategy in November 2014 indicative deficits, before use of reserves were identified of £1.497m in 2015/16, £2.483m in 2016/17 and £3.453m in 2017/18.

68. Large savings have been identified through the PIER process which amount to £997,000 in 2015/16 (Appendices - K and K2). Some of these e.g. management restructure will span more than one year - £150,000 saving in 2015/16 with a

further £100,000 in 2016/17. The savings are varied and include annual reductions in Community grants (matching the reductions in the funding the Council receives), and the closure of the old town museum. There is a loss of some 20 posts in 2015/16 and potentially a further 20 in 2016/17.

69. These savings plus the inclusion of the additional Efficiency Support Grant in the settlement and New Homes Bonus monies, means that a balanced budget can be achieved in 2015/16 using some £430,000 of the Transition Reserve (See Appendix A).

Budget 2016/17 and beyond

70. The settlement figures received in December, unlike those of last year, do not provide any projected Settlement Funding Assessment figures for future years i.e. 2016/17.

71. The expectation is that government grant reductions of amounts similar to those incurred in the 2010 Comprehensive Spending Review will be implemented over period 2015/16 to 2019/20 i.e. some 40%. In cash terms initial estimates are for a funding reduction of some £700,000 (10%) in 2016/17, subject to a 1.9% p.a. increase in Council Tax income, and various assumptions on other funding streams.

72. A deficit of £480,000 is estimated for 2016/17 and a deficit of some £1.4m in 2017/18 – before the use of Reserves (see Appendix G).

73. The Council needs to achieve the high level of PIER savings identified in Appendix K to achieve a manageable deficit in 2016/17 and the years beyond. The savings include £235,000 p.a. following further transformation of the ways that people deal with the Council and how it works (Digital by Design), £100,000 saving from the Grounds Maintenance budget, a further £100,000 from the management restructure (£250,000 in total), plus a further £211,000 savings from other initiatives. The achievement of these need to remain a priority for the Council and a real risk if they are not achieved. In addition, there remains the necessity of identifying further savings for the years ahead and putting processes and actions in place to achieve them.

74. Financial modelling of income and expenditure beyond this period identifies deficits increasing by an average of some £700,000 per annum.

75. To help ensure that the Council can continue to deliver key services at this time, the Council prudently established the Transition Reserve, of £722,000, and agreed to enhance this by £1.5m in November 2013 from the General and Capital reserves to assist in the transformation to a lower spending Council (£2.222m in total).

76. Following the identification of efficiencies and service cuts it is proposed that the Transition Reserve be used to help fund services in 2015/16 in the sum of £430,000 and for 2016/17 the sum of £480,000 would be required to balance the budget (based on current estimates and assumptions).

77. To help ensure that the Council can continue to deliver key services at this time, any underspends should be used to strengthen reserves – this is a continuing

message that will help ensure that key services can continue to be provided as the Council continues its transformation to a lower spending Council.

78. In order to address the budgetary issues ahead whilst also looking to improve the customer experience, it is recommended that the Priority Income and Efficiency Review process (PIER) continues.

Council Tax and Council Tax Freeze Grant

79. The government has awarded grants to councils over the last four years of varying amounts and periods to effectively freeze Council Tax:-

2011/12 - £174,000 (2.5%), payable for 4 years and built into the settlement
2012/13 - £174,000 (2.5%), a one year initiative
2013/14 - £70,000 (1%), payable for two years
2014/15 - £70,000 (1%), built into the settlement

80. It is open to the Council to increase Council Tax for 2015/16. Each 1% increase would raise some £55,974. The threshold to trigger a local referendum in 2015/16 is 2% or above (2% for 2014/15). The government has made it clear that they wish to see Council Tax frozen.

81. The Council has the option of accepting the below inflation 1% Council Tax Freeze Grant or potentially increasing Council Tax by a higher percentage

82. The local government settlement has stated that the Council Tax Freeze Grant will be built into the base funding and also that no Council will see a reduction in Revenue Spending Power (RSP) of more than 6.4%. Last year any increase in Council Tax would have reduced the amount of Efficiency Support Grant entitlement in 2015/16 and beyond.

83. The Council is unable to fully determine the Council Tax liability until the precept requirements of East Sussex County Council, the Police and Crime Commissioner, and the East Sussex Fire Authority are known. The draft Council Tax figures in the appendices show an indicative 1.9% increase for Hastings BC and 1.95% increases for all the preceptors – a revised Appendix N with final figures will be presented at the Cabinet meeting.

84. In terms of service pressures, members are reminded that each £56,000 of additional revenue expenditure equates to 1% on the Council Tax. This is a lower figure than in previous years (previously £70,000), and results from the changes to how Council Tax Benefit is now funded.

85. Council Tax is at £235.85 (Band D – Hastings BC element) and has been at this level for five years (2010/11 to 2014/15).

Delays in Receiving Capital Receipts

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

87. It remains imperative that the Council maximises its capital receipts. Failure to do so will necessitate curtailment of the already limited capital programme or result in the Council having to borrow. 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 requirement over the life of the capital programme.

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

Capital Programme

89. The capital programme analysed by service is attached (Appendix R).

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

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

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

b. meet the objective of sustainable development,

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

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

91. There is a need to maintain the property portfolio in order to avoid higher maintenance costs and declining assets in future years. 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 in a period of economic uncertainty - and also given the increase in competition for tenants. To this end the Council has continued to refurbish industrial units in Theaklen Drive using European funding monies (Answers in the Carbon Economy). Likewise for the economic vitality of the town it is important that infrastructure remains well maintained. To this end the sum of £50,000 p.a. within the Capital programme is retained for public realm enhancements.

92. Whilst the capital programme is significantly reduced over the forthcoming years, opportunities are still being sought for funding e.g. application to be resubmitted to the Heritage Lottery Fund in respect of the Castle.

93. The Disabled Facility Grant settlement has not yet been advised. The funding in 2015/16 and beyond will be from the Better Care Fund and be paid to the Council from East Sussex County Council rather than directly by the government. The funding for 2015/16 has currently been included at 2014/15 levels (£666,000) and the Capital programme will be revised with the actual figures once confirmed.

94. Included within the capital programme for 2015/16 is £700,000 in respect of a new industrial unit (already approved). In addition there are a number of new projects

for consideration:-

(i) Coastal Space (partnership with Amicus Horizon) - £875,000 grant for a further 30 properties. The Council retaining a share of ownership at disposal. (See separate report – Appendix P)

(ii) Bottle Alley Improvements - £160,000. This includes concrete repairs and LED lighting

(iii) Malvern Way Improvements - £30,000 (match funding with Amicus Horizon)

(iv) Castle - £100,000 of enhancement works prior to the 950th anniversary of the battle of Hastings (this is in addition to the £250,000 earmarked for the lottery bid which remains in the programme for future years) .

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

	2014/15 £'000s	2015/16 £'000s	2016/17 £'000s	2017/18 £'000s
Gross Capital Expenditure	5,752	5,205	2,820	2,270
Net Capital Expenditure	4,520	3,353	548	188
Financing from own resources	1,720	1,428	548	188
Borrowing Requirement	2,800	1,925	0	0

96. In terms of net cost, the 2014/15 programme has been revised to £4,520,000 (assuming no slippage). The 2015/16 programme amounts to £3,353,000 (£5,205,000 Gross).

97. The draft capital programme shows the status of the schemes
c denotes schemes which are committed
u denotes schemes which are in the programme but as yet uncommitted
n denotes schemes that are new

98. It is proposed that schemes marked with an asterisk proceed without further reference to Cabinet or Council.

Capital Programme - Incremental Impact on Band D Council Tax

99. In determining the affordability of new capital proposals the Council is required to consider the incremental impact on the Council Tax for future years. The impact is expressed in Band D equivalent amounts on the Council Tax. The purpose is to give the Council the opportunity to consider options for capital proposals and to highlight the potential future financial burden of capital investment decisions.

100. Where the programme is financed by capital receipts, reserves, external grants and contributions with limited borrowing the impact on the revenue budget at a time of low interest rates is relatively small. Details of revenue cost implications are highlighted in Appendix E, but in short the Council's capital programme remains affordable for 2015/16.

Minimum Revenue Provision (MRP)

101. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

102. The Council is required to make a "Prudent Provision" which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision. The MRP for 2015/16 is estimated at £514,000 (excluding any notional figures for leasing arrangements).

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 corporate objectives particularly in the areas of economic development and community safety.

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. The estimated reserves position, as at 31 March 2015, is shown in Appendix H. As an absolute minimum, the combined level of the Capital Reserve and General Reserve should be £4m i.e. the non earmarked reserves. This is the same level as 2014/15 and reflects the more difficult funding regime, as well as the experience of the last year which has seen financial claims being made against the Council e.g. pier claim, land charges. This level is required to be maintained to cover unexpected expenditure, e.g. emergencies, potential over runs of gross

expenditure and further down turns in income sources, and was arrived at as follows:-

(i) 10% downturn in income (sales, fees, rents, etc) - £1m

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

(iii) Unforseen events/losses - £1m

107. In addition, given the economic environment and all the uncertainties described elsewhere, it is prudent to maintain the two reserves at a figure above the absolute minimum and wherever possible increase the level of reserves. Any under spends must be considered as opportunities to strengthen the reserves and improve services for the future - as and when the economic outlook removes some of the uncertainties.

108. 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.

109. 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 Head of Finance that the processes followed and the information systems used are sound and that the regular reporting and involvement of senior managers in managing budgets provides sufficient assurance that the resultant estimates are as robust as present economic circumstances allow and that the reserves are currently adequate.

Consultation

110. The draft Corporate Plan and Budget is the subject of consultation (from Friday 16 January 2015). The closing date for comments (Friday 13th February) is after the dispatch of this agenda and therefore any further comments received will be reported verbally to Budget Cabinet on 16 February. Comments received from the business community, voluntary and community sector organisations and the Joint Overview and Scrutiny Committee meeting are to be included within the Corporate Plan report elsewhere on the agenda.

111. The full Council meets to set the budget on the 25 February 2015.

Equalities and Community Cohesiveness

112. The equalities implications of the proposals included in the draft budget and corporate plan are set out in Appendix K2. Members are reminded that they are under a duty to give due regard to considerations of equality when making decisions regarding the Budget and Corporate Plan, (Equality Act 2010). As with the consultation feedback set out above, if any information is submitted as part of the consultation which requires a revision of this assessment, this too will be made available to Members at the Budget Cabinet meeting.

Risk Management

113. Numerous risks are highlighted in this report, and further comment is made below. The risks include reduced government funding, enhanced demand for Council services, delays in asset disposals. There are continuing risks surrounding the employment of staff based on short term grant funding streams, and those delivering housing benefits over the next few years. To balance the budget the Council has had once again to seek efficiency savings, review the capital programme, review fees and charges, and make cuts in services and grants. It will need to further prioritise its objectives and identify where it would need to make savings to balance the budget in 2016/17 and beyond.

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

115. The Council seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, identify income generation opportunities and ensure that potential savings are monitored and achieved.

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

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

(i) Business Rates Retention – volatility in income streams arising from both local and national economic pressures, the level of successful rating appeals, and collection rates.

(ii) Income streams – preservation and enhancement.

(iii) Joint working/ shared services. The Council has achieved significant annual savings as a result of the joint procurement exercise for Waste Collection and Street Cleaning services and also for Grounds Maintenance services. It remains very important for the authority that the joint working is successful if the delivery of the savings is to be achieved.

(iv) Staffing / Knowledge Management. The loss of key staff through early retirement or redundancy.

(v) Welfare Reform (Universal Benefit and Council Tax Support). There is a significant financial risk involved which is that of increased benefit payments being made in the year – the financing risk falling on the Council. The scheme approved is for a further period of one year to March 2016. The Council will consider a new scheme for 2016/17 with all the implications this has on the local community and the Council in devising the scheme.

(vi) Restructuring Costs. In order to make savings of the magnitude required in the future, the Council will need to further reconsider what services it can provide and to what level. Further restructuring seems inevitable if a sustainable budget is to be achieved in the years ahead against the background of continuing funding reductions. Voluntary and/or compulsory redundancies have large financial consequences for the authority, both in terms of direct payments but also generally on the Pension Fund - in addition to the effect on the capacity of the organisation and knowledge management implications. The Council established a Redundancy Reserve as part of the budget setting process in 2011/12 which has been added to when possible (balance at 31 March 2014 was £769,000). The intention will be to meet any additional redundancy costs from either the existing 2015/16 provision or the redundancy reserve. The reserve will assist in transforming the Council to a lower spending organisation in the years ahead.

(vii) PIER savings. The realisation of the identified savings will be critical for the Council to achieve a sustainable budget in future years.

(viii) Treasury Management – investment security and level of returns.

(ix) Potential Liabilities – The Council is currently facing a legal claim following the closure of the Pier in 2006. Additional costs could arise from a survey of the cliffs which would impact on the Renewals and Repairs reserve in the first instance.

(x) The Economy. The economic and financial instability in the world continues to be major risk. The Council relies upon its income streams to provide services. Inflationary pressures have however eased considerably.

Economic/ Financial Implications

118. The report supports the alignment of corporate priorities with available resources, produces a robust and balanced budget for 2015/16 and also for 2016/17 (with some use of reserves). There are a number of new projects within the capital programme to assist the continuation of the regeneration of Hastings.

119. The financial implications in 2015/16 and beyond are detailed in the report. However, significant further action by the Council will be required to produce a sustainable budget beyond 2016/17 and this may result in more job losses.

120. The economic regeneration of the town remains a key priority for the Council. The ability to work with partners to help stimulate the local economy will be seriously reduced following the reduction in our funding. However the Council established some limited reserves for economic development and for community safety as a means of ensuring the Council can continue to make a contribution to the regeneration of the town over the next few years these are being retained for use in 2017/18 and beyond.

121. The loss of such large percentages of government funding and public sector jobs along with the reduction in the Council's spending power could have a negative effect on the local economy.

Environmental Issues

122. A key priority of the Council is to tackle climate change and make Hastings more sustainable. A number of the efficiency schemes undertaken by the Council both reduce CO2 emissions and reduce energy consumption as well as saving money. Of note is the Answers in the Carbon Economy project which has had European

funding to enhance the long term sustainability of some Council owned industrial units.

Organisational Consequences

123. 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 annual plan.

124. With reduced resources available a number of service cuts have been required; these have been identified in Appendix K.

125. Given the projected shortfalls in funding there are expected to be continuing job losses and restructuring consequences for the years ahead and the Medium Term Financial Strategy will be amended in the light of changes in government funding projections.

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

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Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

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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	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	Yes

Background 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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