

Appendix A - Chief Finance Officer Statement (S25 Notice)

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.

In expressing the following opinion, the Chief Finance Officer has considered the financial management arrangements that are in place, the level of reserves, the budget assumptions, the overall financial political and economic environment, the financial risks facing the Council and its overall financial standing.

Financial Management

The financial management of budgets has continued to be a struggle for the organisation, and whilst improvements have been made around the regular reporting of the financial position, the Council has found that estimates previously included in the 2023/24 budget have been found to be inaccurate or not robust enough to cope with variations in demand. This is evidenced by the large forecast overspend of c.£1.6m for the 2023/24 financial year.

Historically, savings targets have been around the c.80% success rate, with the current year seeing even greater disparity due to large variances in the Housing forecasts and budgets profiles.

Additional professional resources have been brought in as part of this year's budget setting process to aid and support colleagues in Housing, specifically to assist with budget setting forecasts to prevent similar errors being made as part of this year's budget process.

The Council has also brought in interim restrictive financial measures in 2023/24 which has highlighted the need for the Finance team and budget holders to be more accurate with their forecasts and savings proposals, as well as demonstrating a need for better support and training to budget holders by the finance team.

The planned upgrade to the finance system in 2024/25 should provide a much better platform for budget holders and the finance team itself, to produce better quality reporting and estimates moving forwards in agreed timescales.

It is therefore the view of the Chief Finance Officer that

(i) the processes followed during this year's budget setting timetable have allowed for a far greater understanding of the revenue budget, with extensive and thorough discussion with the Senior Leadership Team. The information systems used are generally sound but will greatly benefit from the planned system upgrade in the new financial year.

The involvement of senior managers in managing budgets provides a better degree of assurance that the resultant estimates are as robust as present economic circumstances and resources allow.

Reserves

The Reserves balances, in particular the General Reserve as highlighted in the budget report, demonstrates an extensive and committed approach to tackling the financial position the Council finds itself in.

The Council this year agreed to a new Reserves Policy which has clearly outlined the approach to Reserve management and has allowed for a detailed review of all Earmarked reserves with a calculated and planned temporary reduction in several reserves such as Repairs and Renewals.

The Councils budget this year also includes better reserve usage and provision for areas that could prove to be of a greater risk of uncertainty, such as the Transformation programme which is linked to sharing of services.

Whilst the budget does still require the use of the General Reserve for the next financial year, there is a continued commitment to ensure that these remain above the £4m recommended balance for the lifetime of the MTFs.

It is therefore the view of the Chief Finance Officer that

(ii) The reserves are of a sufficient level to meet the expected financial demands of the Council over the lifetime of the MTFs. The continued commitment to review and update the reserves policy annually will also allow for greater awareness and management of the associated risks to provide a more stable and efficient use of those reserves in the future.

Financial, Economic and Political Environment

The wider financial and economic environment that Hastings, like many other councils finds itself in, has been shown over the last few financial years, in particular with the rising costs of Temporary Accommodation to be deeply rooted and connected in the community to which it serves.

Those demand pressures could increase if the wider economic situation were to worsen, for example if there were to be a recession or if cost of living pressures continue to force more people out of their homes.

Inflation and the potential knock on impact have been mitigated as much as possible as part of the budget assumption calculations to reduce how sensitive the budget is to external fluctuations and reduce the risk of being overspent in year.

Politically the Council and its Cabinet make up, has recently undergone some uncertainty and this has had a negative impact on the savings proposals, evidenced by the need to reduce the original savings proposed around transformation and the sharing of certain services.

No sooner had the savings been agreed at Full Council in December with officers having had initial discussions with partners and government departments around potential sharing options that it was announced that there would be a political change at Cabinet level which destabilised the organisation.

Whilst this is not the sole reason why there was a need to reduce the savings target for transformation, there is no question that it was a contributing factor. In order for any sharing of services to take place you require two partner organisations open to the idea and political sign off and confidence is a key factor.

Political arrangements have now commenced under a new leadership and Cabinet over recent weeks, and it is hoped that this arrangement can provide the stability and leadership to deliver the required savings targets and to agree the Budget.

The new collaborative approach should allow for greater transparency and speed of decision making moving forwards, which should ultimately benefit the Council in the longer term, if political relationships can be maintained leading up to a local election cycle in May.

Risk Assessment

There have been improvements to the way that risks are highlighted and approached throughout the organisation with risks being more embedded into the day to day management of the organisation. There is now more ownership on departmental leads and management instead of the Internal Audit function which is now focused solely on their own function.

Specific risks are highlighted in the budget report itself, however the impact that the Homelessness crisis is having on all Local Councils needs to be addressed nationally before any real changes will be seen but remains this Councils main focus and priority for good reason.

It is therefore the view of the Chief Finance Officer that

(iii) The proposed budget, including risk contingency, general balances and reserves sufficiently address these risks. Additional resilience has been built into the budgets and assured over the longer term through the creation of a new earmarked reserves for Asset Maintenance to begin setting aside additional resources to cope with aging assets and Invest to Save for transformation.

Financial Standing

The Council has received strong criticism in the form of its recent Local Government Finance Peer Review and from the External Auditors (Grant Thornton) as part of their Value for Money Audit reports, around its overall financial position and future going concern if the issues highlighted in those respective reports were not properly addressed.

The Council has responded to those criticisms to date confirming that the historical approach and practices had been amended even before receiving some of the reports, and that improvements were being made in order to address the financial situation accordingly.

The Council has brought in external advice and improved its Internal Audit function, a point highlighted by the External Auditors as being required to improve governance procedures and challenge at the Council.

CIPFA (Chartered Institute of Public Finance and Accountancy) has amongst others been used to support the Councils Chief Finance Officer and Chief Executive with discussions with Central Government departments around the approach that it should take to avoid the threat of being issued with a Section 114 notice.

Thus, reducing the risk of requiring Government intervention to help tackle the increased housing costs associated with temporary accommodation for Homelessness, which has seen exponential growth in expenditure levels over the past couple of financial years.

Alongside ongoing discussions around what support would, or could, be made available externally the Council has taken some meaningful and important steps to address the financial position it has found itself in before further assistance is provided.

The Council has shown a consistent strategy to address the financial deficit over the past eighteen months or so and the reductions in the MTFS deficit have been a result of a considered and thought through approach.

This has included revising where needed savings targets in Housing and others to be more achievable and by imposing financial restrictions across the organisation and reviewing its Reserves. The Council has also embarked on a process of identifying and selling Assets to generate Capital Receipts, as well as reducing its overall spend for schemes by utilising external funding wherever possible.

It is therefore the view of the Chief Finance Officer that

(iv) The financial standing of the Council is in a better position than it was in the last financial year and the budget is evidence of this in terms of the MTFS forecasts compared to previous years.

The decisions made thus far by the organisation demonstrate a commitment to changing approach that is beginning to yield success, against a backdrop of continuing external financial pressures.

Kit Wheeler
Chief Finance Officer & Section 151 Officer
Hastings Borough Council