

**Report to:** Cabinet

**Date of Meeting:** 05 September 2022

**Report Title:** Medium Term Financial Position Update

**Report By:** Kit Wheeler  
Chief Finance Officer

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### **Purpose of Report**

To update the executive on the Councils projected medium term financial position and approve an action plan which aims to ensure members are in a position to reduce the current year projected deficit and to enable a balanced budget to be agreed for future years.

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### **Recommendation(s)**

#### **That Cabinet agree:**

- 1) Officers continue with detailed work to bring forward business case options to the Executive designed to address the deficit by curbing unplanned cost increases, reduce core costs and/or increase income.
- 2) Officers report monthly to the Executive on progress with developing and implementing the business cases, savings achieved/identified to date and the latest financial position.
- 3) Officers provide regular updates to the Executive on all the other management action points listed in this report.
- 4) An urgent review of all fees and charges be undertaken with the aim of implementing them as soon as legally possible (allowing for any statutory consultation periods).
- 5) The council request that the LGA (Local Government Association) organise a finance peer challenge in early Spring 2023.
- 6) A review of the capital programme is completed to ensure it is affordable and commencement of new capital schemes which require borrowing is restricted until the strategy to address the financial deficit has been determined.  
(\*Exceptions to include schemes that demonstrate reduction in revenue costs, or where schemes are fully externally funded).

- 7) A further, more detailed Medium Term Financial Strategy be brought to the October Cabinet meeting setting out more detail of the strategy to address the budget deficit, including scenario planning, as well as in-year and other budget savings where these have been identified.

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## Reasons for Recommendations

Hastings Borough Council, like many other councils, is currently facing some of the biggest financial challenges and pressures in recent years, possibly ever.

The ability to deliver key services to the most vulnerable is becoming increasingly hard to do. Static funding from Central Government, coupled with high cost of inflation on all services, rising homelessness and temporary accommodation costs, and tighter restrictions on how Councils can fund capital expenditure is providing a perfect storm.

Under the Local Government Finance Act 1992, as amended by the Localism Act 2011, it is a statutory requirement that Councils set a balanced revenue budget.

A major overhaul of the funding mechanism for local authorities has continuously been postponed and when combined with a regular one-year spending reviews, continues to provide considerable uncertainty on funding in future years.

The previous Secretary of State for Levelling Up, Housing and Communities committed to providing a two-year financial settlement for 2023/24 onwards, however until the new Prime Minister and Cabinet is in place, uncertainty remains as to whether this commitment will be realised.

Whilst a two-year financial settlement would be better for planning purposes than previous one year settlement figures, it does little to provide long term assurance and planning opportunities for Local Government finance teams across the country and Hastings is no different.

The Council needs to be able 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.

We have seen in recent years what impact Covid-19 had on our ability to deliver services and the wider economy, so we must be prudent to guard against similar unexpected and impactful local and even global events outside of our control.

It is therefore imperative that attention is drawn to the current and future financial position of Hastings Borough Council and that Members act immediately on the recommendations as outlined in this report.

Failure to do so will result in a worsening financial position and likely issuing of a Section 114 notice in the forthcoming months.

**What is a S114 Notice?** Within the Local Government Finance Act 1988, Section 114 (3) dictates that:

“The Chief Finance Officer of a relevant authority shall make a report under this section if it appears to them that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

In general terms this means that for Local Government, it is the Chief Finance Officer (CFO) or Section 151 officer who has the role under law of being the most senior financial advisor to the wider Council’s leadership on its financial plans.

Uniquely across the public sector however, the CFO also has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one.

**What Happens when a S114 Notice is Issued?** It would mean that no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured.

Council officers would therefore carry out their duties in line with contractual obligations and to acceptable standards, while being aware of the financial situation.

Any spending that is not essential or which can be postponed would not take place and essential spend would be monitored.

The only allowable expenditure permitted under an emergency protocol would include the following categories:

- existing staff payroll and pension costs
- expenditure on goods and services which have already been received
- expenditure required to deliver the council’s provision of statutory services at a minimum possible level
- urgent expenditure required to safeguard vulnerable citizens
- expenditure required through existing legal agreements and contracts
- expenditure funded through ring-fenced grants
- expenditure necessary to achieve value for money and / or mitigate additional in year costs

Councillors would have 21 days from the issue of a Section 114 notice to discuss the implications at a Full Council meeting.

## Background

1. Hastings Borough Council has made significant progress over the recent years to deal with its revenue position and reduce its future deficit position.
2. This includes identifying ongoing permanent savings in the region of £1m in 2021/22 and rising to savings of £1.5m by 2024/25.

3. These identified savings have however been wiped out by additional in-year costs of Temporary Accommodation (£783k) and inflationary pressures such as utilities costs and a potential significant staff pay award (£665k) all of which are adding pressure in the 2022/23 budget.
4. After 12 years of funding cuts and savings being identified, the Council will now be using its Reserves to fund the budget gap moving forwards, this is not a sustainable position and urgent and drastic action must be taken to reduce costs/increase income.
5. Hastings Borough Council has a Minimum General Reserve policy of £6m.
6. A Strategic Group has been working since the election in May on addressing the budget deficit. The Leader, Deputy Leader and Finance Portfolio Holder Executive also meet weekly with Senior Officers to steer and drive the pace of this work and address urgent issues that impact on the council's finances.

**Outturn 2021/22 (i.e. year-end financial position compared to the original budget)**

7. The Council sets a budget in February, and in previous years it has reported a revised budget position in the autumn which reflects the current position and changes. It would then report its outturn (year-end) against that revised budget.
8. To give greater clarity and to be consistent with other public sector organisations all future reporting, including this report, will now compare to the original budget.
9. **Hastings Borough Council Revenue Outturn 2021-22 Total (Subjective Analysis Breakdown)**

CATEGORY	2021-22 ORIGINAL BUDGET £	2021-22 ACTUAL £	2021-22 VARIANCE VS ORIGINAL £
Employees	14,509,240	14,394,724	(114,516)
Premises	4,680,570	4,433,121	(247,449)
Transport	363,130	266,722	(96,408)
Supplies and Services	12,916,218	20,118,293	7,202,075
Housing Benefit Payments	28,571,790	29,030,410	458,620
Support Services	15,311,090	14,872,264	(438,826)
<b>Gross Expenditure</b>	<b>76,352,038</b>	<b>83,115,533</b>	<b>6,763,495</b>
Income	(48,073,310)	(59,748,323)	(11,675,013)
Recharges Out	(15,311,090)	(14,872,264)	438,826
<b>Net Expenditure</b>	<b>12,967,638</b>	<b>8,494,946</b>	<b>(4,472,692)</b>

10. Appendix A shows a further breakdown by Department.

11. The Original net budget for 2021/22 was set at £12.96m. The Council's outturn for 2021/22 was £8.45m, before requests to carry forward some underspent budgets from the year and other transfers to Earmarked Reserves of £4.46m.
12. Once all other Expenditure (e.g., MRP, Interest etc.) have been included there is a deficit of £382,000 for the 2021/22 financial year.
13. The Original Gross Expenditure Budget for 2021/22 was estimated at £76.4m, with actual Gross Expenditure for the year being £83.1m. That is an increase of £6.7m (9%).
14. The service area with the greatest increase in Gross Expenditure was Housing and Built Environment which accounted for £6.1m (88%) of the total increase. This was mainly because of increased temporary accommodation demand and emergency and essential building works carried out at various sites, such as Battle Road.
15. The Council has been focussed on reducing Temporary Accommodation expenditure and established a Homelessness and Housing Taskforce in late 2021, which has identified savings so far in excess of £650k over the next two financial years.
16. The Council has also implemented a Council-wide recruitment freeze when posts become vacant. Limited exceptions are made with the agreement of the Council Leader. Whilst this is a very blunt temporary tool, and does impact on teams and service delivery, the savings from this are helping to reduce the deficit whilst a wider structure review is being undertaken as part of the budget process.
17. The unaudited accounts for 2021/22 show that the General Reserve Balance is £9.1m.

## **2022/23 Outturn Forecast and Impact on future years**

18. The Budget setting process for 2022/23 made a number of assumptions about the council's financial position informed by the best possible financial and operational information available at the time.
19. However, as the financial year progresses those estimates and forecasts can become out of date very quickly. The extremely fast changing financial landscape of 2022 is seeing large variances between the assumptions that were made in the budget and the actual real life position.
20. Since the 2022/23 Budget was agreed by members back in February 2022, there have been a number of developments globally (longer than anticipated Ukraine conflict) and more localised to the United Kingdom (rising inflation rates, in particular around Energy costs), which will have an impact on the original assumptions that were included.
21. The following table sets out the most impactful inflationary changes that we are facing as a council, and the latest updated estimated financial impact on the organisation in the current financial year.

Type	Original 2022/23 Inflation %	Current Estimated 2022/23 Inflation %	Full 2022/23 Financial Impact
Salaries	1%	5%	-£544,000
Total Fuel & Energy Costs (Total price not %)	- £348,000	-£613,000	-£265,000
Average assumed Inflation rate on Other Service Areas	2%	5%	-£345,000
<b>Total</b>			<b>-£1,154,000</b>

22. These additional inflation costs, along with any in year additional costs identified through the regular budget monitoring reports would need to be funded through Reserves.

## Reserves

23. The latest forecast figures, including any potential savings and additional growth indicate that there will be a deficit of £3.07m for the 2022/23, of which £2.97m being funded from the general reserves.

24. As mentioned previously in this report, the Council has a minimum Reserve policy of £6m. The following table demonstrates the estimated General Reserve Balance for the next few years;

Revenue Budget Forward Plan	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
	£000's	£000's	£000's	£000's	£000's	£000's
Funding (Shortfall) / Surplus	(382)	(3,077)	(2,638)	(2,877)	(2,874)	(2,872)
Use of General Reserve	182	2,977	2,538	2,777	853	0
Use of Resilience and Stability Reserve	200	100	100	100	500	500
Net Funding (Shortfall) / Surplus	0	0	0	0	(1,521)	(2,872)

<b>General Reserve Balance</b>	<b>9,146</b>	<b>6,169</b>	<b>3,631</b>	<b>853</b>	<b>0</b>	<b>0</b>
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25. As per the table above based on current forecasts it will mean that the Council will drop below its minimum General Reserve balance of £6m in the 2023/24 Financial year, and all but £800k will have exhausted its General Reserve by the end of 2024/25.

26. This is completely unsustainable for the future going concern of the council and needs to be urgently addressed. If no action is taken, then it is unlikely that the

council would be able to fulfil its statutory obligations to set a balanced budget in future years and will have no prospect of doing so.

27. Considering this risk to the financial health of the Council, the Managing Director has worked with senior officers to reduce spending which is not necessitated by legal commitments. The Executive also agreed to restrict commencement of new capital projects which are funded by borrowing, until the budget strategy is implemented. (Exceptions will be considered where they have a positive impact on the revenue budget or are fully funded externally).
28. It is a breach of the Councils statutory obligations to commit expenditure where the funding source is not available, and long-term borrowing is not permitted when the medium-term financial plan is not in balance.
29. Councils have a legal requirement to operate within a duty to provide Best Value and allowing the situation outlined above to occur in the future would be a clear breach of that duty.
30. The Council's external auditors (Grant Thornton) would issue a public interest report and there would be a risk of government intervention – which could include commissioners being appointed to oversee the councils' operations including spending.
31. This would result in likely negative media attention and serious disruption to business as usual and our ability as a Council to provide our core functions which of course is something to be avoided wherever possible.

## **Conclusion and Management Action**

32. The financial situation that the Council currently finds itself in means that further urgent and decisive action is required to reduce the rising expenditure costs and arrest the decline in our reserves which is not sustainable.
33. There is not one single solution to addressing the budget deficit. A programme of actions is underway, under the oversight of the Executive. All uncommitted revenue expenditure has been paused.
34. The following are areas of work and analysis is underway which is feeding into in the development of the budget for 2023/24 onwards which Full Council will need to agree in February 2023, work includes:
  - Completing the detailed asset review and create a future proofed strategy to give a transparent and decisive approach to the use of all our assets which maximizes commercial income (with limited exceptions).
  - Service Managers bringing forward detailed business cases for review and high-level scrutiny to ensure services are maximising external funding, identifying potential reduction in costs (to core level permissible by law) or additional revenue generation where applicable.



- Identifying options for ceasing non-statutory and non-contractual services for Member consideration as part of the budget development process - with consideration given as to whether another body (public or voluntary or community sector could deliver an alternative on our behalf at less cost.
- Shared services options are being explored where they can generate a significant one off saving or reduction in ongoing costs.
- A further review of all existing Capital Schemes is underway to ensure that they meet criteria such as positive return on investment etc.
- Options to maximise income recovery in relation to Council Tax schemes, such as Council Tax reduction, Hardship, Single person discount and multiple properties are being developed.
- A Treasury Management review is being undertaken to ensure that we are maximising borrowing potential in the most cost-efficient way, MRP (Minimum Revenue Provision) calculations are as effective as they could be and returns on investments are at a premium.
- A detailed review (and increase where applicable) of all Fees and Charges to cover the additional costs the services are facing is underway.
- A review of 2021/22 Carry Forward requests may determine that these are refused.
- A review has commenced into the Hastings Housing Company, to determine the best future operating model / strategy to help with the Housing crisis faced by the Council.
- A review and implementation of new financial policies including Reserves, Capital Management, MRP and use of Capital Receipts.
- The Head of Paid Service is making a determination of the organisation and level/numbers of staff required to discharge the council's functions (a statutory duty). This is being consider this in the context of challenges of recruitment and retention in core/statutory areas.
- The council is continuing to welcome support from external bodies such as the Local Government Association and CIPFA to ensure the council is applying best practice and learning from elsewhere in its approach to tackling its deficit.
- The council is continuing to lobby the Government to recognise the particular circumstances we face (i.e. the costs of Temporary Accommodation) that are fuelling the rise in the budget deficit

35. If action is not taken immediately to address the future financial position, then it is extremely likely that the Chief Financial Officer will have no other option but to



issue a Section 114 notice for the reasons highlighted in this report before the start of the 2024/25 financial year.

## Policy implications

36. **Equalities and community cohesiveness** – the implications of budget decisions will need to be assessed and where possible mitigated. A detailed equalities impact assessment will accompany each proposal for budget reductions.
37. **Anti-poverty** – as the council is in a position where it is required to ration its expenditure, it will need to ensure remaining resources are targeted towards those who are most in need.
38. **Local people's views** – Likewise, views of local people will be sought when determining final budget decisions.

## Timetable of Next Steps

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

Action	Key milestone	Due date (provisional)	Responsible
Weekly meetings with Executive	Ongoing	Relevant updates and papers to O&S and Cabinet meetings as and when required.	Chief Finance Officer
Meeting with three Group Leaders		Following 5/9/22 Cabinet meeting	Managing Director/Chief Finance Officer
Medium Term Financial Strategy Update (statement position)	Agree Action Plan outlined in the report	September 2022	Chief Finance Officer
Agree Fees & Charges, Reserves & Treasury Management Strategy policies	Ongoing	September 2022	Lead Members / Chief Finance Officer / Managing Director

Treasury Management Strategy	Audit Committee / Cabinet	October 2022	Chief Finance Officer / Deputy Chief Finance Officer
Medium Term Financial Strategy	Cabinet	October 2022	Chief Finance Officer
Fees and Charges	Cabinet	December 2022	Chief Finance Officer
Set a longer-term balanced budget	2023/24 budget Council	February 2023	Chief Finance Officer

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## Wards Affected

None

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

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## Additional Information

Appendix A – 2021/22 Service Area Outturn Summary Report

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## Officer to Contact

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