

Finance Peer Challenge


Hastings Borough Council

20th - 22nd March 2023

Feedback 31st March 2023

Feedback report





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1. Executive summary

The appointment of the new S151 Officer (Chief Finance Officer) has been welcomed across the organisation by both officers and members. In interviews, many people highlighted the approach of the new S151 Officer. They noted that in comparison to the previous officer holder, there is a more open and collaborative approach.

The new s151 Officer has made a number of changes to procedures, reports, and outputs. Importantly, monthly monitoring reports are now produced. This is a positive step forward and will help the organisation to get more control over spending. It will also allow the organisation to track and monitor savings more effectively.

The Finance Department is seen as being good at operational matters including a much-improved budget monitoring process. However, in interviews the peer team heard that the department is perceived to be lacking at a strategic level, with one interviewee stating that: “finance is focused on detail and is not strategic.”

In focus groups the peer team heard that budget managers generally find the finance system to be “clunky”. In the view of the peer team, consideration should be given to rolling out a user training programme so that staff feel more confident using the system and are given advice on how to use it most effectively.

The peer team found that the Finance Department needs to reconsider its approach and improve engagement, particularly when the Council is developing external funding bids and business cases for investment.

The peer challenge team reviewed the council’s finances, budget reports and financial monitoring information. Having reviewed these documents and discussed them with interviewees, the peer challenge team are very concerned about the council’s financial sustainability, the low level of unallocated revenue reserves and the record on achievements of savings and overspends in housing. Unless the revenue budget position is addressed as a matter of urgency, with savings promptly realised, then the S151 Officer will be left with little choice but to issue a section 114 (s114) notice to the Council at some point during the 2023/24 financial year.

The issuing of a s114 notice is an extremely serious matter; it will severely impact the Council, both in terms of its ability to deliver for residents as well as its wider

reputation. All necessary steps should be taken now to reduce expenditure and make savings promptly.

The peer challenge team are of the view that the Council has the means to address the budget and savings problems if it works together to swiftly implement the cost reduction programme, and promptly realises planned savings.

The Council must find a way to maintain programme management discipline whilst working at pace. The peer challenge team found that the current pace of decision making and implementation on key projects is slow which is delaying the achievement of key savings. Agile decision making, implementation and delivery are critical to the Council's recovery.

In interviews the peer challenge team heard that the political leadership is passionate about housing issues but does not consider the financial situation sufficiently. One interviewee stated that: "compassion from the political leadership is not balanced to the reality of the financial position". The peer challenge team reviewed information on the council's housing service spending, and it is clear that the Council cannot continue to spend at the current rate, with repeated significant overspends. Difficult decisions such as: reducing Housing/Homelessness spend; selling surplus assets; controlling costs; reviewing capital programme spending plans, need to be made promptly. The peer challenge team also believe that a comprehensive review of revenue budgets needs to be taken.

The political decision making at Hastings Borough Council needs to be streamlined and focused on: reducing costs; controlling spending; achieving savings and rebuilding the revenue reserves. Aspirational projects need to be temporarily put on hold whilst focus is given to tackling the revenue budget problems and putting the council on a sustainable financial footing.

The Cabinet needs to urgently focus on the key strategic issues facing the Council, namely the budget challenge, the housing overspend and low revenue reserves.

2. Key recommendations

There are a number of observations and suggestions within the main section of the report. The following are the peer team's key recommendations to the council:

2.1. Recommendation 1

Immediate management actions to bring in and embed more stringent financial controls and accountability to urgently reduce spending.

2.2. Recommendation 2

A comprehensive review of all service budgets should be undertaken identifying areas of non-essential/non-statutory expenditure that could be stopped or significantly reduced.

2.3. Recommendation 3

Swiftly change the organisational narrative, financial sustainability is the priority, focus on what is within your control. The organisation needs to stop relying on general revenue reserves to fill significant budget gaps going forward.

2.4. Recommendation 4

The housing overspend needs to be tackled immediately: engage an interim Head of Housing to focus on this task; urgently implement the recommendations in the LGA desktop housing review; adopt an agile approach to Housing delivery and savings, with clear lines of accountability.

2.5. Recommendation 5

Streamline arrangements for managing projects, creating clearer accountability, and improving business cases

2.6. Recommendation 6

Plans to deliver the savings targets should be prepared and monitored, on a monthly basis with clear actions and accountabilities assigned. More visible leadership is needed on the key financial challenges and housing.

2.7. Recommendation 7

Regular budget monitoring and savings reports to Cabinet, with all member briefings on the key challenges from the S151 Officer and the Chief Executive/Managing Director.

2.8. Recommendation 8

Prepare a more detailed Medium Term Financial Strategy covering at least the period from 2023/24 to 2026/27, undertaking scenario analysis of all income sources including council tax, business rates, income from fees and charges.

2.9. Recommendation 9

Make changes to enable asset disposals to happen. This should include having clear accountability and decision making on disposals.

2.10. Recommendation 10

Review delegations and governance, so that where appropriate decisions can be delegated and enacted more swiftly, with the appropriate due diligence.

2.11. Recommendation 11

Strengthen strategic political governance and oversight to reflect corporate priorities and the scale of the financial challenge. Consider the governance arrangements for projects and programmes

2.12. Recommendation 12

Take advantage of existing partnerships and further develop them to meet the financial challenge

2.13. Recommendation 13

Break down silos in order to get the whole organisation working together to meet the financial sustainability challenge

3. Summary of the peer challenge approach

3.1. The peer team

Peer challenges are delivered by experienced elected member and officer peers. The make-up of the peer team reflected the focus of the peer challenge and peers were selected on the basis of their relevant expertise. The peers were:

- Senior Officer Peer – Dale Philipson, Deputy Chief Executive, St Albans City and District Council

- Chief Finance Officer Peer – Wayne Layton, Havant Borough Council
- Member Peer - Cllr Terry Paul (Lab), Newham Council
- Member Peer - Cllr Neil Stock (Con), Tendring District Council
- Member Peer - Cllr Julian German (IND), Cornwall Council
- LGA Finance Improvement & Sustainability Associates (FISA) – Andrew Hardingham
- LGA Peer Challenge Manager – Angela Kawa

3.2. Scope and focus

The peer team considered the following five themes which form the core components of all Finance Peer Challenges. These areas are critical to councils' performance and improvement.

1. **Financial leadership:** Does the authority have plans for its long-term financial sustainability, which are owned by its members and officer leaders?
2. **Financial strategy, planning & forecasting:** Does the authority understand its short and long-term financial prospects?
3. **Decision-making:** Are key decisions taken in the understanding of the financial implications, risks, and options?
4. **Financial outcomes:** Are financial results (including those of the Council's investments and transformation projects) monitored and acted upon so as to realise the authority's intentions?
5. **Partnership & innovation:** Is finance at the cutting edge of what the authority is working to achieve, working with partners, and seeking innovative approaches?

In addition to these questions, the council asked the peer team to provide feedback on **Housing**, as the substantial overspend in this area is creating significant financial pressure.

3.3. The peer challenge process

Peer challenges are improvement focused; it is important to stress that this was not an inspection. The process is not designed to provide an in-depth or technical assessment of plans and proposals. The peer team used their experience and knowledge of local government to reflect on the information presented to them by people they met, things they saw and material that they read.

The peer team prepared by reviewing a range of documents and information in order to ensure they were familiar with the council and the challenges it is facing. The team then spent three days onsite at Hastings Borough Council, during which they:

- Gathered information and views from more than 32 meetings, in addition to further research and reading.
- Spoke to more than 51 people including a range of council staff together with members and external stakeholders.

This report provides a summary of the peer team's findings. In presenting feedback, they have done so as fellow local government officers and members.

4. Feedback

4.1. Financial Leadership

The Council has relied on the use of reserves to balance its budget to the extent that by the end of 2024/25, unless drastic action is taken, the revenue reserves will be exhausted. Prior to the appointment of the current s115 Officer financial information provided to members has been opaque. This has led to limited scrutiny by members before major decisions are taken. For example, there appears to have been limited scrutiny of the original decision to enter into a contract to build a hotel in the town.

In 2021/22 the Council incurred a significant overspend on homelessness services of £174k, which has grown to a forecast overspend of £2.029m in 2022/23. The Council has overseen a steady growth in the number of temporary accommodation clients rising from 240 in April 2022 to 513 in March 2023. This growth in demand has placed significant pressure on the revenue budget.

The peer challenge team reviewed savings plans. Savings have been identified for

2023/24 through to 2025/26 but the detail that sits behind the headline numbers is not clear. For example, the Council has agreed to incrementally reduce the homelessness budget by £1m per year from 2023/24. The peer challenge team are of the view that there is not a detailed action plan sitting behind this savings target. This combined with the current rise in demand suggests these savings are unlikely to be achieved as planned without swift and decisive action. This needs to be addressed as a matter of urgency.

The peer challenge team found that there is a lack of clarity regarding the ownership of the capital programme and how schemes are included. The capital programme, strategy and treasury management strategy need to be reviewed and joined up. The financing of the capital programme has a significant impact on the revenue budget in terms of debt interest and the minimum revenue provision. Therefore, the Council needs to be cautious and review the capital programme which includes some legacy schemes. Capital projects need to be properly appraised and should only proceed where the initiatives reduce the revenue deficit or deliver key corporate priorities. The Council also need to ensure that it can afford to proceed with the projects, particularly in light of the Council's financial position and the increase in costs and inflation.

The Council have approached DLUHC (Department for Levelling Up, Housing and Communities) to discuss support for housing pressures. Unless the Council can demonstrate it is taking action to improve the financial sustainability of the organisation, DLUHC are unlikely to be convinced to provide additional or exceptional financial support, if the council were to request this.

The political leaders and senior management team should urgently focus their attention and efforts, on addressing the very substantial budget issues. The peer challenge team very strongly believe that the priority for the senior leaders needs to be getting the council's finance on a sustainable footing.

The peer challenge team reviewed the current governance and project management arrangements. The team believe that the current arrangements could be improved through streamlining to enable the senior leadership of the organisation to deliver more effectively. The project management arrangements could be more agile and create better opportunities for more effective scrutiny. Currently a lot of officer time and capacity is spent tracking and documenting rather than delivering. A greater

focus on the outcomes and delivery would assist the council to move more swiftly with key projects. It would also provide greater clarity for members when scrutinising progress on key projects.

4.2. Financial strategy, planning & forecasting

The peer challenge team reviewed the Council's budget, budget documents, audit, and financial monitoring information. The General Reserves balance at 1st April 2022 were £9.698m. The Council have agreed that the minimum level of general reserves should be £6m.

The opening balance of the General Fund Reserve for 2023/24 stands at £4.838m, which is £1.162m below the agreed £6m minimum level of reserves. The approved budget for 2023/24 included a planned use of £2.530m of reserves leaving the general reserve balance at £2.308m at the end year of the 2023/24 financial year (i.e. 31 March 2024). The peer team noted that this figure is predicated on no in-year overspends, assumptions on the pay award, interest payments on borrowing, inflation and the £1m reduction in homelessness. As a consequence, additional pressures are likely to occur in-year. For example, if inflation or borrowing costs are higher than expected or the savings on homelessness are not fully achieved.

Therefore, unless urgent action is taken by the Council, it is likely the organisation will have utilised all of the General Fund Reserve by March 2024. Although the Council holds a number of earmarked reserves, these are either unusable or of insufficient value to be considered as a funding solution. This is a very concerning situation that needs to be addressed urgently.

The peer challenge teams saw evidence that the Council's financial controls are showing signs of improvement under the new S151 Officer, but these controls are not fully developed yet.

The peer challenge team reviewed audit reports and interviewed auditors. The audit process has been difficult. The peer challenge team noted that external audit has an unsigned opinion for 2020/21 and the Council hopes this can be signed-off by the end of April 2023. However, in interviews the peer challenge team heard that information from the Council is slow in coming forward; with knowledge concentrated

in just a few people. There are significant external audit delays across the local government sector, there also appear to be some local issues in Hastings which needs to be addressed to ensure the accounts are signed-off.

The lack of audit 'sign off' of the statutory accounts for 2020/21 and 2021/22 is causing some concern amongst Finance staff. Preparing the statutory accounts is a complex task dependent upon a number of detailed transactions and the reconciliation of data held in different systems. There are some transactions that still need to be finalised which may affect the General Fund (after the completion of the peer challenge the council received external advice and confirmed there is no adverse impact on the General Fund).

It is noteworthy that the external auditors for Hastings Borough Council have flagged substantial concerns about the financial sustainability of the organisation going forward. The peer challenge also noted that a report from the S151 Officer on the Medium-Term Financial Strategy was discussed at Cabinet in September 2022 and this report also raised concerns about the council's financial sustainability. The peer challenge team shares these concerns and urge the Council to act swiftly to address the concerns.

The peer challenge team reviewed the Medium-Term Financial Strategy (MTFS). The Council does not have a robust enough MTFS. A draft budget covering years 2023/24 to 2026/27 was included in the budget papers approved by Council in February 2023. The assumptions for 2024/25 are not explicit and appear in some cases to be understating the likely position.

The current MTFS requires £1.5m of reserves to be used in 2024/25 to balance the budget. There does not appear to be any explicit allowance for inflation on pay or other similar costs. Provision has been made for annual increases in council tax of 2% as well as a 1% year-on-year increase in the council tax base. There is no explanation accompanying these assumptions. Government grants are assumed to remain at the 2023/24 level, including the admin support grants for council tax and housing benefit. Fees and charges are projected to generate additional income of £367,000 rising to £734,000 over 3 years, no details have been provided in the MTFS on how that will be achieved.

The Cabinet were presented with a draft MTFS in September 2022 which included a

recommendation to present an updated MTFS in October 2022. This has yet to be presented.

The peer challenge team recommend that the Council prepares a MTFS covering at least the period from 2023/24 to 2026/27. The Council should undertake scenario analysis of all income sources including council tax, business rates and income from fees and charges. The new MTFS should include a plan to replenish useable and general reserves.

The peer challenge team also recommend a comprehensive review of all service budgets be undertaken, identifying areas of non-essential and non-statutory expenditure that could be stopped, or as a minimum reduced. This will enable the Council to have confidence in the budget gap.

Plans to deliver the savings targets already included in the MTFS should be prepared, approved, and monitored on a monthly basis, with clear actions and accountabilities assigned. This will help the council to deliver the savings that are needed to put the council on a sustainable financial footing.

4.3. Decision making

The peer challenge team considered the arrangements for holding officers to account for delivery and found that they were not clear. Collective responsibility was often quoted by officers and councillors in interviews, but there are instances where the Chief Executive is shown on project documentation as holding responsibility for a project activity, rather than overseeing or driving delivery. The view of the peer challenge team is that this dilutes the effectiveness of boards which should be holding others to account for delivery.

The Strategic Overview and Planning Board (SOAPB) is an effective engagement tool, but does it help the organisation to achieve the key aims and ensure things are being delivered? Does it provide effective oversight for Cabinet Members? The peer challenge team recommends that the Council considers reviewing this body, what it does, and what the alternative means of Cabinet Member oversight on delivery could be.

In October 2022 the Council received a desktop review from a senior LGA housing

officer peer. This review included clear recommendations to help the Council tackle its homelessness problem, and as a consequence reduce pressure on its general fund budget. The Council has created a Housing Homelessness Taskforce, the peer challenge team acknowledged there have been some good outcomes as a result of the taskforce. However, the peer challenge team found that the taskforce has not addressed a number of the recommendations from the LGA housing desktop review and as a consequence budgets are still overspending.

In interviews, the peer challenge team heard from people across the organisation, the general feeling appears to be that whilst some savings have been found spending continues and demand continues to grow. There is considerable scepticism amongst senior managers and finance staff about the achievability of the budget savings (an incremental £1m per year). The peer challenge team is also concerned that Council needs to act swiftly to deliver the savings otherwise the savings target will not be achieved.

The peer challenge team is concerned that the Council's approach of buying property to house the homeless, will add pressure to the capital financing budget, with a knock-on effect for the revenue budget. The Council has identified purchasing property as a way of alleviating the current housing budget pressure. This pressure is in part due to the use of expensive temporary accommodation. Whilst purchasing property will create capacity, this will not be enough to combat the housing overspend. A more holistic approach is needed with the focus on addressing costs and the overspend, by managing demand and preventing homelessness.

The peer challenge team were also concerned by the decision under a previous Head of Paid Service, previous S151 Officer, and previous Leader, to enter into an agreement to build and then lease (under a forward funding arrangement) a hotel within the town. The peer challenge team reviewed the documentation provided by the Council and are of the view that the short-term return on investment is now unclear given the current economic circumstances, and may actually constitute a cost/loss of income in the short to medium-term, with a return in the longer-term. This will need to be factored into the base budget. In response to these concerns, the Council told the peer team that they have ongoing discussions with the other party and these discussions have been positive and the town does not currently have sufficient hotel provision. The peer challenge team encourages the Council to

continue to explore the available options in relation to this contract, to minimise costs and maximise benefits in so far as is possible. The peer team also encourages the council to learn lessons from this and ensure that future projects have appropriate flexibilities which take into account changes in circumstances.

4.4. Financial outcomes

The peer challenge team considered the Council's project and programme management. The Council has a comprehensive approach to programme and project management. However, there is a disproportionate amount of staff capacity and staff time associated with this comprehensive approach. This approach to programme management appears to be stifling activity and delivery. The transformation programme and project plans seen by the review team list a wide range of actions and tasks with associated detail, many of which appear to be 'business as usual' rather than transformational. There is no indication or ranking of the priority projects that deliver financial savings or reduce demand for services. Many of these projects are capital. Whilst the thoroughness of this approach is laudable the Council should consider its effectiveness in delivering the desired outcomes and whether this approach is the best way to use staff capacity. Focusing staffing resource on priority areas for change that deliver financial savings for the Council will be more likely to deliver the type of change required to provide financial stability.

The peer challenge team noted that the Council has prepared a brief for consultants to undertake a full review of assets, this was agreed in July 2022. At the time of the peer challenge the brief had yet to be issued to prospective bidders for the work. In the meantime, the Council's ability to generate income from an asset disposal programme is being hampered. As a consequence, its ability to utilise capital receipts to deliver sustainable projects is being severely restricted.

The peer challenge team found that the Council's ambitions are not aligned with its financial circumstances, and this leads to frustration from Councillors. The Council needs to prioritise its efforts to balance political aspirations with economic and financial realities. The focus should be on those activities that can provide a financial benefit and support the attainment of longer-term community outcomes.

The peer challenge team were concerned that the Council's programmes and processes have not yielded the expected and planned for savings. One-off, non-recurring income has helped show an improved position, but the underlying financial challenges have not been addressed. This must change going forward. The council needs to ensure that planned savings are delivered swiftly and that there are contingencies for any unexpected pressures that may occur in-year.

The peer challenge team reviewed the reporting of the capital programme and found that it is inconsistent with the homelessness strategy. There is a disconnect between the homelessness strategy, capital programme and the revenue budget. The costing of the purchase of houses/flats to house homeless people is not properly reflected in a capital programme and strategy. The strategy should also connect to the Treasury Management strategy and funding requirements. Furthermore, this should also which be reflected in the revenue budget in terms of interest and Minimum Revenue Provision on borrowing.

The link between the homeless strategy and the financing of the Housing company also needs greater explanation. £10m is being diverted to the acquisition of property by the Council for homeless people. But is the acquisition of property the right strategy to tackle the homelessness issue, particularly in light of the growing overspend in housing and the impact on the revenue budget of borrowing to buy homes? The peer challenge team are of the view that there needs to be a shift in the Council's approach towards managing demand, preventing homelessness, and finding other ways to support people who are at risk. Buying property needs to be seen as only one part of the plan to tackle the homelessness issue, with greater focus on alternative ways to support people. For example, with small grants for rental deposits, signposting to voluntary sector organisations, ensuring people are claiming the correct benefits, supporting people to find work etc.

The peer challenge team noted the lack of audit 'sign-off' of the statutory accounts for 2020/21 and 2021/22. The peer challenge team also noted there are some transactions that need to be finalised.

4.5. Partnership & Innovation

The Council is seen as a good partner by its neighbouring councils and other partners such as the voluntary sector. The peer challenge team heard in a number of interviews that the Council is open and willing to consider partnerships.

On procurement the peer challenge team found that the Council has been slow to respond to opportunities for collaboration, but this has improved very recently. For example, some council services, such as Housing, have been unaware of the opportunities for using the East Sussex Procurement Hub to full effect, and are only now aware of the possibility of using a Dynamic Purchasing System via the hub. This could help the Council achieve better value for money for temporary accommodation. It could also replace more expensive options such as spot purchase of accommodation.

The peer challenge team are of the view that more can be done to utilise the Council's partnerships with other local authorities, public sector organisations such as the NHS, and the voluntary and third sector. Working with partners on some of the key challenges facing the local authority and the local area could also help the organisation to meet its budget challenge. The Council needs to do less, but can partners do more? Particularly on housing and cultural activities.

4.6. Housing

The peer challenge team reviewed key documents on housing and the housing company. These documents included plans, savings targets, the LGA desktop housing review, relevant Cabinet, and budget papers. The peer challenge team also interviewed staff working on housing, the Senior Management Team, and Cabinet Members. The team found that there are two key issues to be addressed regarding housing:

1. The Hastings Housing Company
2. The housing service and the budget overspends in this service

The Council owns a housing company (Hastings Housing Company). The company

will undertake trading in three areas:

- Investment of up to £5m per annum for three years for the purchase and provision of housing on the open market for private sector rent.
- The acquisition of residential property for rent from developers in lieu of capital receipts it would receive as part of wider regeneration proposals.
- Development or the receipt of housing on land owned or purchased by the council, for sale or rent.

The Council has lent the Hastings Housing Company £5m on an interest-only basis in order to finance the above objectives. The interest payment (£0.260m) due for 2022/23 is at risk due to the letting agent being unable to recover sums that are due. During the peer challenge, finance staff reported that they are unable to locate key documentation concerning the loan.

A report containing recommendations regarding the structure and the future direction of the housing company was prepared for members in November 2021. At the time of the peer challenge the report had not yet been included on a Cabinet agenda for discussion.

The peer challenge encourages the Council to consider reviewing the business case for the Hastings Housing Company and whether this is the most appropriate delivery model at this time. The housing company currently only holds social housing, there is no requirement for the Council to hold social housing in a company although it does mean the properties are not subject to right-to-buy. The peer challenge team noted that this is an expensive way to hold property given the commercial premium on borrowing. The Council is also a registered provider which means that it can access the Affordable Homes Grant. The housing company is not a registered provider and therefore the grant available cannot be claimed by the company.

The housing service overspend is the largest budget pressure the Council is facing. The peer challenge team strongly believes that this overspend needs to be urgently addressed with a clear action plan that is swiftly implemented. The Council has a target to achieve £3m savings over the next three years. The Council needs to urgently implement the recommendations from the LGA desktop housing review, with clear actions and quick implementation of changes to realise the savings. The new

allocations policy being a key example of where urgent action is required now. This is one of the key changes needed to manage demand and bring down overspending in this area.

The peer challenge team also believes that there needs to be a more strategic view of the homelessness issue. Who are the council housing and why, is it the most cost-effective method to support people? The Council should explore whether other support be given to people who present as homeless and see if there are opportunities to work with the County Council and other partners on this issue. The Council should consider what are the pathways to get people out of the system and prevent homelessness. The peer challenge team suggest that the Council review the use of the Homeless prevention grant and ensure that all initiatives are being considered that help to prevent homelessness. The peer challenge team urges the Council to move from meeting the housing demand to managing it and where possible preventing homelessness.

The peer challenge team were unclear on the Council's the procurement strategy for temporary accommodation and housing more generally. The peer challenge team were not presented with a strategy document or clear plan for procurement in this area. As a result, the Council is using the more expensive approach of spot-purchasing temporary accommodation to address housing demand. As stated elsewhere in this report the peer challenge team believe that this situation could be improved by using the East Sussex procurement hub to change the approach and realise savings.

5. Next steps

It is recognised that senior political and managerial leadership will want to consider, discuss, and reflect on these findings.

Both the peer team and LGA are keen to build on the relationships formed through the peer challenge and further support can be discussed. In the meantime, William Brooks Principal Adviser for the Southeast, is the main contact between your authority and the Local Government Association. William Brooks is available to discuss any further support the council requires: william.brooks@local.gov.uk.