Appendix 11

Statement by the S151 officer on the robustness of estimates and the adequacy of proposed reserves

Introduction

1.1 The Local Government Act 2003 (Section 25) requires that the chief financial officer (S151 officer) reports the following matters to members when agreeing its annual budget and council tax:

- The robustness of the estimates made for the purposes of the budget calculations; and
- The adequacy of the proposed financial reserves.

1.2 For members the Section 25 statement provides critical context for budgetary discussions and in which budget decisions are made.

1.3 This statement considers the macroeconomic context within which the Council operates and the medium term financial outlook, the Council's track record on financial management and the adequacy of the estimates contained within the proposed budget for 2024/25. Consideration is given to the risks to the budgetary position for 2024/25 and the adequacy of factors to mitigate those risks including earmarked reserves. The overall level of reserves and the level of resilience they provide is also considered.

Macroeconomic context within which the council operates and medium-term economic outlook

2.1 The Council operates in an extremely challenging macroeconomic environment. We have seen a reduction of £156m in real terms (40%) in our spending power (excluding council tax) since 2010-11. Spending power is the Government's measure of our core resources.

2.2 The medium term economic outlook is extremely uncertain. The Autumn Statement 2023 stated that planned departmental spending will grow at 1% a year in real terms (accounting for inflation) from 2025-26 to 2028-29. No detail was given on how individual departments will be affected but the Institute for Fiscal Studies have estimated that, based on reasonable assumptions about what may be needed for the NHS and schools and existing commitments on defence, overseas aid and childcare, funding for other services in England may need to be cut by an average of over 3% per year in real terms. It follows that significant pressures on external funding allocations are likely to continue if these departmental spending plans are carried out.

2.3 Further uncertainty arises out of the absence of information on the timing and scope of the local government funding review and business rates reset. Any changes

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introduced by the review and reset that significantly alter the distribution of funding will impact on Hackney and other councils.

Financial management track record, governance & strategic planning

2.4 The Council has a sound track record of financial management and good governance. Despite the reduction in funding, increased demands and cost pressures, the impact of Covid-19 and the cyberattack, and the cost of living crisis; we have continued to set a balanced budget for many years. This has been supported by an approach which seeks to mitigate budgetary risks through the deployment of earmarked reserves. Our budgeting is underpinned by budget proposals that are subject to a comprehensive scrutiny process involving various Scrutiny Groups, Cabinet Lead Members, the Corporate Leadership Team and Service Heads.

2.5 From an external perspective the Council's finances are subject to an external audit regime under which our Annual Statement of Accounts are subject to review and testing by the appointed auditor. The Council has been issued with unqualified opinions for many years up to and including 2020/21. As with most local authorities, failures in the audit market have resulted in delays to the issue of subsequent opinions. At the time of writing auditors findings for 2021/22 and 2022/23 have been reported to the Audit Committee. These reports highlight that for both years the auditor anticipates issuing an unqualified opinion, without modification, on the financial statements. There does however remain a risk of change to this assessment until the opinions are issued.

2.6 In terms of preparing the 2024-25 budget, we have ensured that the Council has in place, appropriate arrangements and controls to manage the risks and impacts. These include: -

(a) Extensive Financial Management, Monitoring and reporting. Regular finance updates are provided in the Overall Financial Position (OFP) report and detailed reporting to both the Corporate Leadership Team (CLT) and joint sessions of Cabinet and the CLT on financial planning in the short and medium term.

(b) Risk Management. The Council has in place mechanisms for managing risks on savings through relevant risk registers and reviewing delivery on an ongoing basis.

(c) Prioritising Resources to Strategic Plan Objectives. The budget report includes a summary of our Strategic Plan and sets out how we continue to invest in line with our priorities. Budget proposals are prepared in the context of our Strategic Plan and risks to delivery that they might pose considered and mitigated where appropriate.

(d) Equality. The Corporate Leadership Team makes sure that equality underpins all

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that we do. It also looks to ensure that all equality impact assessments on service and staff impacts are undertaken and details of these are available for review by Members and are published on the Council Website.

(e) Cumulative Impacts. The budget proposals that underpin the budget are wide-ranging and have been subject to a cumulative impact assessment which is included at Appendix 12 to the budget report. Although this exercise cannot be used to fully protect residents given the level of budget reductions required, we can work to anticipate impacts, plan for them and build them into our new equality plan, wider corporate strategy and transformation work.

2.7 The Council's Objectives as set out in the Strategic Plan are developed on the basis of the best strategic fit between the actual and forecast resources available to meet stakeholder needs and expectations which prevail. There are clear links between Strategic objectives and decisions, the financial implications and the resulting services delivered to local people.

2.8 In order to facilitate the successful implementation of the Council's strategic objectives, we undertake a regular review of the medium term financial plan to ensure that it covers known and projected planning commitments on a rolling basis. We also carry out central budgeting of both revenue and capital expenditure to align with proposed spending.

Compliance with the codes and standards

3.1 To demonstrate our compliance with codes and standards in respect of strong financial management we undertake a review of our processes and procedures against the Cipfa Financial Management Code (FM Code) on an annual basis. The Cipfa FM Code provides guidance for good and sustainable financial management in local authorities and assurance that authorities are managing resources effectively. The code applies to all local authorities and by following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdiction.

3.2 The code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the Interim Group Director Finance (CFO) and colleagues on the leadership team. Complying with the FM Code helps strengthen the framework that surrounds financial decision making.

3.3 Each year as part of the budget setting process we review compliance with the code to demonstrate compliance with the principles of good financial management. This review, attached at Appendix 10, has found that we continue to demonstrate compliance with the principles set out in the FM code and can demonstrate that we

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are in compliance with all financial management codes and standards thereby giving assurance that we are managing resources effectively. We identified two areas for improvement as part of this review; 1) the consistency of our approach to Equality Impact Assessments in decision making needs to be improved and training for all managers is being planned for the coming year and 2) the transformation work needs to be led by the Corporate Leadership Team and more closely aligned with the budget strategy and savings development process and a revised governance structure has been put in place to address this.

Robustness of estimates

4.1 The Council's preferred strategy to manage growth, inflation and its impact on cost pressures has been for service areas to manage pressures within their budgets wherever possible including by factoring one-off funding and grants (for example, the Social Care Grant and the Homelessness Prevention Grant) as far as possible. Although it has always been recognised that there will inevitably be some cost pressures which cannot be managed by service areas or which are truly unavoidable and for which budget growth has been added.

4.2 This strategy has become increasingly more difficult given the escalating demands on services (particularly social care) and the reductions in external funding. For 2024/25 -2026/27 significant budget growth was built into the medium term financial plan to address some of these pressures.

4.2 For 2024/25 in particular the following growth has been added to budgets.

- Assumed Pay award for 2024/25 at 3% but held corporately until pay award is agreed (£6.6m); and growth in respect of the shortfall against pay award assumed in 2023/24 (£6.5m)
- Assumptions in relation to increases in demand for social care (£11.6m) taking account of increases in social care grants (£10.4m).
- Other directorate cost pressures including homelessness prevention, pressures in environment operations and parks and green spaces caused by increasing number of households (£3.7m).
- Increase in the budget for minimum revenue provision and external interest as a result of an increased reliance on borrowing to fund the Council's capital programme (£3.8m).
- Increase in concessionary fares and the NLWA levy (estimated £4m in total).

4.3 The estimates in respect of the above growth items are reviewed on an ongoing basis as the current year picture emerges and as more information comes available and estimates adjusted accordingly where appropriate. The forecast estimate in adults and children's social care expenditure has increased significantly in 2023/24 compared to 2022/23 and there is an extremely high risk that expenditure will exceed budget for 2024/25. It is emphasised that work is underway in both these areas which aims to address cost pressures, but given trends in these areas in recent years an earmarked reserve has been set aside to mitigate this risk. As part of the review of

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the Council's MTFP growth assumptions for 2025/26, 2026/27 and 2027/28 have increased.

4.4 Moving on to the main income areas, collection rates assumed for Council Tax and business rates reflect our assessment of the economic environment and our improved ability to chase debt now backlogs from the cyber attack have been cleared. In 2024-25, we are prudent in both reflecting these system improvements while still recognising the possible difficulties council tax and business rates payers may have in paying bills in light of the previous very high and current high inflation rates.

4.5 Assumptions around grants for 2024/25 are built upon the Provisional Local Government Finance Settlement and subsequent announcements. Where allocations have not been received, e.g. Public Health Grant no increase has been assumed; and for Homelessness Prevention Grant we have assumed the increase set out in the Governments' Homelessness Prevention Grant 2023 to 2025 announcement in December 2022.

Savings requirement and feasibility of the plans to achieve the required savings

5.1 Savings requirements are derived from our ongoing budgetary process which identifies the current year savings requirement and future years requirements based on a Medium Term Financial Plan which is refreshed internally on a regular basis. Where necessary revisions are made to the savings requirements if the financial and the non-financial environment changes significantly for individual services and the Council as a whole. For example, the MTFP has been adjusted to reflect the further demand increases in social care from 2025/26 onwards.

5.2 Regarding feasibility, each individual saving proposal goes through a review process involving service heads, directorate leadership teams, the Council's corporate leadership (CLT) team, lead members, various scrutiny panels comprising members and officers and Cabinet/CLT meetings.

5.3 For 2024/25 a specific risk has been raised around the savings proposals to be delivered from the Transforming Adult Social Care Programme. This has been identified through the governance process established for this programme. In addition, savings proposals in relation to Childrens & Education are not as clearly defined as would prudently be required at this stage of the process. The risk for both of these areas is mitigated by these savings being 'back loaded' i.e. the majority of cashable savings to be delivered beyond 2024/25, which gives the opportunity for subsequent review and additional plans. The risk in relation to the savings profile to be delivered in 2024/25 is mitigated by earmarked reserves.

5.4 A significant risk factor for some authorities is the inclusion of material estimates in relation to commercial ventures, partnerships and investment. The Council's exposure in this space is relatively limited with the main element being income from our commercial estate which with budgeted income at £6.2m represents 1.6% of the Council's income. This is subject to ongoing monitoring throughout the financial year alongside the review of the adequacy of bad debt provisions.

5.5 The Council has a relatively low level of debt (estimated to be £63m as at 31st March 2024) with debt servicing costs relatively low. Going forward our plans for capital investment are increasingly reliant on borrowing and as internal balances decrease a greater proportion of this will be from external borrowing and we will have further financial exposure in this regard. Furthermore, this increased reliance on borrowing will increase the proportion of our budgets which we are required to set aside to repay debt principal (the 'minimum revenue provision') and to service that debt ('interest'). In order that these trends are fully reflected in our revenue estimates, capital and revenue expenditure plans are aligned and routinely cross-checked and provisions set aside in the 2024/25 budget are prudent.

Adequacy of reserves

6.1 Determining the appropriate level of reserves and balances is a matter of professional judgement based on individual circumstances such as size of budgets and their robustness, risks identified (both short and long term) and track record in budget money. They act as a safeguard against risks of a one-off nature and can only be replenished if in any one given year income exceeds expenditure. The Council holds a General Fund balance and a range of earmarked reserves for different purposes. The General Fund balance is the absolute last line of defence and a requirement to utilise this reserve would indicate severe financial difficulty.

6.2 A deep dive of the Council's reserve position was reported to the Audit Committee. https://hackney.moderngov.co.uk/ieListDocuments.aspx?CId=555&MId=5558 in April 2023. The report noted that General Fund reserves were forecast to fall in the 2022/23 after an upturn experienced as a result of Covid grants and reliefs. Comparisons with other London boroughs show Hackney in the bottom third when comparing reserves as a proportion of net relevant expenditure. HRA reserves are comparable to other London boroughs and in recent years have seen some significant movements as we have been required to fund pressures such as increases in the bad debt provisions over and above that budgeted and additional pension charges. The report also noted that there were a number of identified financial risks in relation to areas such as social care, inflation (including energy), temporary accommodation and pay awards which necessitated continuing to hold earmarked reserves to mitigate financial impacts in both the General Fund and the HRA.

6.3 CIPFA publishes resilience indices for local authorities which sets out on a comparative basis authorities financial resilience. This looks at reserves levels in relation to budgets, use of reserves, external debt, council tax base and proportion of budgets taken up by social care. The updated index (2022/23) index is expected imminently and this will be reviewed and considered in the context of delivering against our MTFP.

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6.3 Looking forward to 2024/25 and beyond, the table below sets out the forecast position as at the end of 2023/24 taking on board forecast reserves movements in 2023/24.

	£m
Overall General Fund Reserves as at 31st March 2023*	**162.5**
Less: General Fund Balance	17
Less: Schools balances	14.5
GF Reserves (exc GF bal & Schools Balances)	**131**
Forecast Net Reserves usage 2023/24 (note, this is an estimated figure which is subject to change depending on variations to the current year forecast and the level of capital financed from reserves at year end)	30.3
Forecast GF Reserves 2024/25 (excluding GF balances & Schools)	**100.7**

*As per note 8 to 2022/23 unaudited accounts

6.4 I have recently reviewed the Council's reserves to identify the usable reserves which are not committed (either contractually or are so specific it would be imprudent to unringfence, e.g. the insurance reserve) and they do not require the agreement of a third party to access (e.g. S256 balances held with local health partners). When we take these factors into account the available reserves are considerably decreased.

	£m
Forecast GF Reserves 2024/25 (excluding GF bal & Schools)	**100.7**
Committed Reserves (main elements are the PFI, the Insurance Fund & elections reserves)	10.9
Third Party Agreement (S256 agreements with health and other joint balances)	16.8
Capital Commitments (Parking reserve for climate and transport projects £4.2m, Fleet replacement reserve £4.9m and Town Hall sinking fund £4.4m)*	18.6
Other Earmarked reserves	54.4

*These are amounts prudently set aside from revenue to meet future costs mitigating the need to borrow. These, however, can be used for revenue purposes.

6.5 As set out in the main budget report there are a number of significant cost risks particularly around social care, temporary accommodation, savings delivery and the pay award.

6.6 Forecasts towards the end of 2023/24 highlight that despite additional funding built into the budget of £22.1m (£11.6m growth and £10.5m additional grant) for 2024/25 if social care spending continues to grow at the same average pace it has over the past

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three years there is a requirement to earmark an estimated £10m for these cost pressures alone for 2024/25.

6.7 In terms of temporary accommodation, the Council is not experiencing the same level of pressure as some of our London counterparts. We also await an announcement around additional Homelessness Prevention Grant for 2024/25. There is a risk, however, that as the availability of affordable options for temporary accommodation decreases, increases in demand will result in increased use of more expensive nightly paid accommodation over and above this increased funding. This risk is very difficult to quantify and will be kept under review.

6.8 There is also a risk around savings delivery particularly in regard to Adult Social Care where there has been a delay in implementation and also in Children's Savings which are subject to consultation. Furthermore a 1% increase in the pay award over and above that budgeted (budgeted at 3%) generates a cost of pressure of £2.2m per additional 1%. In totality these risks amount to around £4m.

6.9 All of these risks will be monitored through our business as usual processes but it is noted there is a high risk that the potential financial impact of these risks should they materialise will exceed budgets and provisions set aside as part of the annual budget process resulting in further significant draw down from reserves. Although reserve levels are considered adequate to mitigate these risks for 2024/25 it is clear that action needs to be taken to as far as possible to minimise the drawdown from reserves both next year and future years.

6.10 Attention is also drawn to the Council's negative reserve in relation to the Dedicated Schools Grant deficit which currently stands at £17m. With the statutory override which allows the Council to hold this negative reserve on the balance sheet ending in March 2026, there is a risk that if there is no extension of this override or DfE funding to meet this deficit, this will need to be covered from the Council's reserves.

6.11 Staying with Education, the Council holds on its balance sheet net schools balances of £12.4m. These are an amalgam of deficit and surplus balances across our maintained schools. The impact of inflation alongside falling rolls has meant that more of our schools are now in deficit. This is a financial risk to the Council as where a school closes, for example, as a result of insufficient pupil numbers the cost of redundancies and any remaining deficit balance are borne by the Council's General Fund. The Council works closely with schools in a deficit position to develop recovery plans which contributes to mitigating this risk.

6.12 Finally, the Council's General Fund Reserve is set at £17m which represents 4.5% of the net General Fund budget. Historically, the aim has been to hold the General Fund balance at around 5% of the net General Fund budget. Last year the then Group Director of Finance and Corporate Resources signalled his intention for this to raise to £20m over the three year period to 2026/27 (from the 2022/23 level of £15m) to reflect the cash increase in the Council's budget and the risk therein. It is my intention to continue this direction of travel and to review the earmarked reserves and identify a further £3m to reach this £20m.

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HRA estimates, reserves and balances

7.1 The budget for the Housing Revenue Account (HRA), including the setting of rents for 2024/25 was approved by Cabinet in January 2024. The budget was following an update and review of the 30-Year HRA Business Plan for 2024/25 onwards. The 30-Year Business Plan is a statutory requirement and demonstrates that the HRA is financially viable whilst continuing to deliver the Council's Housing priorities. The budget was set taking into account decisions made in relation to HRA reserve levels designed to improve the resilience of the HRA. The financial strategy and approach to risk management within the HRA business plan support the delivery of the Council's strategic housing objectives in a manner that is sustainable and keeps the HRA on a secure financial footing.

7.2 In setting the HRA business plan we follow the HRA Voluntary Code of Practice covering six Principles that describe what the sector considers as essential elements for the continued sustainability of a self-financed HRA Financial viability. The finance Principle is that the housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability. Therefore, the following framework has been designed for assessing the viability of the HRA Business Plan and is being applied within the current model. These metrics are based on successful operation of similar minimum/maximum metrics across the housing sector. They represent a sound and effective way of managing borrowing and investment capacity:

- A minimum closing reserve balance of 10% of total revenue expenditure
- An Interest Cover Ratio set at a minimum of 1.25, defined as net operating surplus divided by HRA interest costs;
- A Loan to Value ratio set at a maximum of 70%, defined as outstanding HRA borrowing (HRA Capital Financing Requirement) divided by total asset valuation of HRA assets on the balance sheet.

7.3 Adopting these measures and testing changes to the plan against them will enable the Council to maximise its outcomes whilst ensuring a financially sustainable Business Plan is always in place. It will also ensure that decision making on future HRA capital schemes becomes more efficient in terms of considering long-term income and expenditure forecasts.

7.4 Therefore as part of setting the budget for 2024/25 we plan to move to a HRA General reserve balance of £17.6m by the end of March 2024 which gets us to 10% of total revenue expenditure. This reserve balance will enable us to manage the risks facing the HRA such as the inflation risks in respect of construction and building maintenance costs, the cost of living crisis and its impact on rent collection and the requirements of the Building Safety Act.

Capital programme

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8.1 Attention is also drawn to the ambitious capital programme which is set out in Section 22 to this report. The programme (including HRA schemes) total over £1.5bn in the four years to 2026/27 and as current capital receipts are earmarked to existing schemes, borrowing will increase. This borrowing includes for the medium term where it is anticipated that capital receipts will be generated from the later sale of private homes (e.g. Britannia Phase 2b and Regeneration schemes) but also for the longer-term where there is no receipt generated or other funding source identified (primarily refurbishment, asset maintenance or investment assets). For this long-term borrowing the Council is required to set aside sums in its revenue budget to both service the interest on its debt and to repay the borrowing. This latter amount is referred to as the minimum revenue provision (MRP). Whilst for 2024/25 £9.9m (including PFI) is budgeted for both these sums this is anticipated to increase to around £24m by 2027/28 (the end of the medium term period), increasing from 2.6% to 6.0% of the Council's net revenue budget.

8.2 It is imperative that the Council continues to maintain tight control of the capital programme and its revenue and cash flow impacts. Section 23 of the budget report sets out the requirement of The Prudential Code for Capital Finance in Local Authorities 2021 (the Code) and how the Council adheres to this and sets the required limits. The Code sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects, through borrowing, without any imposed limit as long as they are affordable, prudent and sustainable. Furthermore, Appendix 3 sets out the Council's Treasury Management Strategy, which was recommended for approval by Council, by the Audit Committee at its meeting on 31 January 2024.

Conclusion

9.1 In conclusion it is the opinion of the Interim Group Director of Finance (S151 officer) that estimates and balances are sufficiently robust and at the appropriate level with due regard to the risks set out in this statement. There has in recent years been a decline in the level of earmarked reserves which we hold against specific risks as those risks have materialised and reserves drawn down. It is important, in order to maintain our financial resilience and to avoid the requirement to make short-term decisions which will impact on our residents, for the Mayor, Cabinet and the Corporate Leadership Team to develop robust plans to deliver against the revised Medium Term Financial Plan included at Appendix 5 to this budget report. This will mitigate further significant decline in our reserves.

9.2 Furthermore, the clear advice of the Interim Group Director of Finance is that the current level of General Balances should be held at the existing position of £17m which is in line with our current policy to not allow the general balance to drop below £17m. Cognisant of the uncertainty in which this budget is set and the ongoing nature of some of the risks set out the aim is to increase these to £20m over the medium term period to 2026/27 from a review of current earmarked reserves.

Recommendation

The S151 officer emphasises that it is critical in order to maintain our financial resilience and to avoid the requirement to make short-term decisions which will adversely impact on our residents, for the Mayor, Cabinet and the Corporate Leadership Team to develop robust plans to deliver against the revised Medium Term Financial Plan included at Appendix 5 to this budget report.

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