



<b>Title</b>	Chief Finance Officer's Report on the Robustness of the 2024/25 Budget
<b>Purpose of the report</b>	To make a key decision
<b>Report status</b>	Public report
<b>Report author</b>	Darren Carter, Director of Finance
<b>Lead Councillor</b>	Councillor Brock, Leader of the Council
<b>Corporate priority</b>	Our Foundations
<b>Recommendations</b>	1. That Council notes the contents of this report in setting the budget for 2024/25

## 1. Executive Summary

- 1.1. Under Section 25 of the Local Government Act 2003 there is a requirement for the Council's Chief Finance Officer (Director of Finance) to report to Council on:
  - a. The robustness of the estimates made for the purposes of the calculations of the budget; and
  - b. The adequacy of the proposed level of financial reserves.
- 1.2. Council in considering its Budget should have regard to this advice.

## 2. Policy Context

- 2.1. Reading Borough Council remains financially stable however it is not immune to national issues. The Local Government sector is experiencing immense resourcing challenges ranging from inflationary pressures to rising demand and recruitment constraints. The financial resilience of all local authorities is under strain. In November 2023 the Office for Budget Responsibility (OBR) reported:

*Since 2010/11, local authority spending has fallen from 7.4% to 5.0% of Gross Domestic Product (GDP), and it falls further in our forecast to 4.6% of GDP in 2028/29. Given local authorities' statutory duty to provide a range of services where demand is likely to continue to grow, such as adult and child social care, pressure on local authority finances and services will continue.*

- 2.2. The most visible manifestation of these pressures has been the number of Council's issuing Section 114 notices. Twelve Section 114 notices have been issued by local councils since 2018 compared to just two over the previous 18 years. We are also seeing an increasing number of councils implementing strict spend controls to avoid the need to issue a Section 114 notice. Some of those councils will have made poor financial decisions in the past that are contributing to present difficulties, but what we are now seeing is 'good' councils struggling due to a combination of factors, most notably the cost and demand pressures in social care.

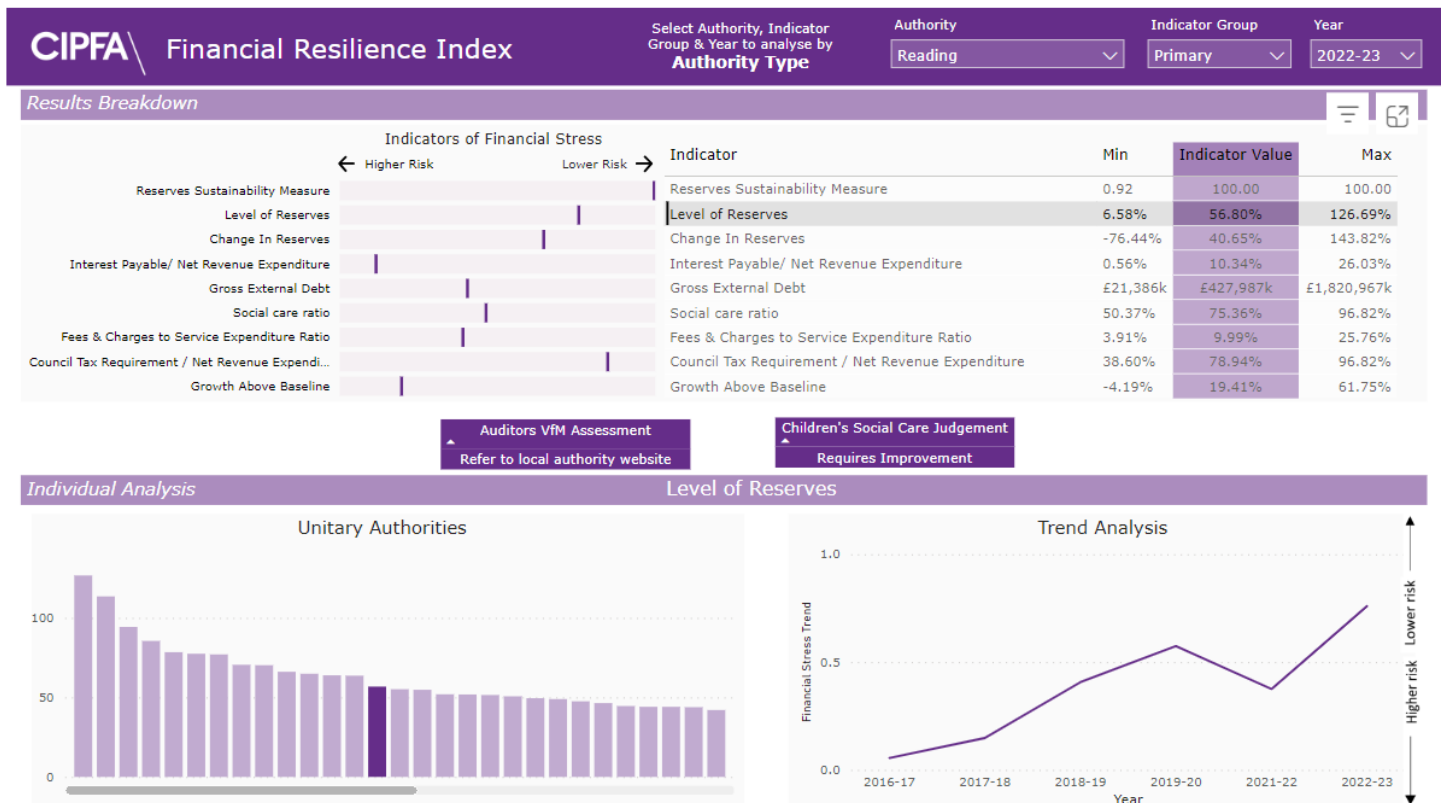
2.3. Reading Borough Council is forecasting an adverse variance of £3.685m in 2023/24, including a forecast adverse variance of £7.019m on Childrens Services provided by Brighter Futures for Children (BFfC) and smaller but still significant pressures on waste collection, waste disposal and homelessness. 37% of savings are assessed as being non-deliverable (16% relating to income generation and 21% efficiency savings).

2.4. The proposed budget for 2024/25 addresses each of these areas.

**The CIPFA Financial Resilience Index**

2.5. The CIPFA financial resilience index is a comparative analytical tool intended for use by Chief Financial Officers to support good financial management. The index shows a council's position on a range of measures associated with financial risk, highlighting where additional scrutiny may be required. CIPFA have made available to Section 151 Officers, the unpublished figures for 2022/23; I have used the unpublished index in this report. The references to the CIPFA Financial Resilience Index in Appendix 1 to the 2024/25 Budget & Medium Term Financial Strategy 2024/25-2026/27 uses the published figures for 2021/22.

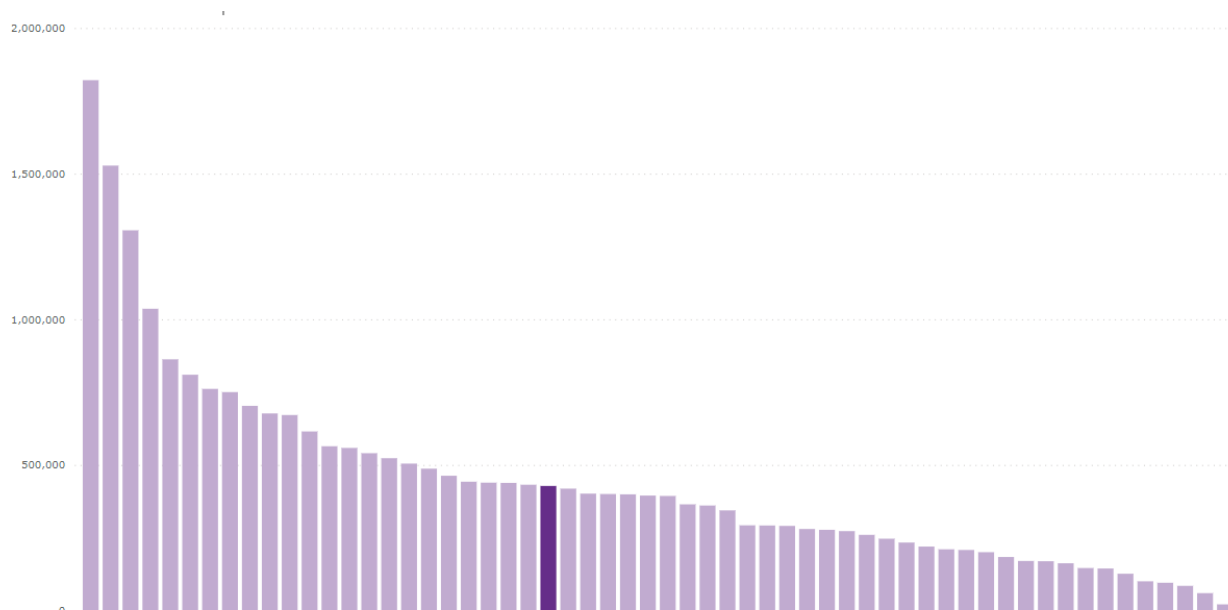
2.6. The index for Reading Borough Council as compared to other unitary authorities is as follows:



2.7. On 31<sup>st</sup> March 2023, the level of reserves held by Reading Borough Council equated to 56.80% of net revenue expenditure. While this is a small reduction from the previous year, including Covid-related reserves, Reading now has the 14<sup>th</sup> highest level of reserves among the 51 Unitary authorities, up from 23<sup>rd</sup> the previous year, as council's increasingly draw down from reserves to balance budgets. As outlined in Appendix 1, the Council's reserves are forecast to reduce over the MTFS period.

2.8. Although the index shows interest payable as being a risk for the Council, this is not considered to be a risk, as this specific measure within the index does not differentiate between those authorities with or without Housing Revenue Accounts.

- 2.9. The level of gross external debt is £427m, which is in the middle quartile of unitary authorities, as shown in the following chart.



- 2.10. One area of future concern may be the growth in Business Rates ahead of the baseline. Reading has the 13<sup>th</sup> highest level of business rates growth above baseline. While this demonstrates the economic success of the borough, the financial benefit of that growth is likely to be lost or reduced when the business rates base is reset in future.

### **The CIPFA Financial Management Code**

- 2.11. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched the Financial Management Code in 2019. The Code sets out 17 standards of financial management for local authorities to assess themselves against and Councils are required to undertake an annual self-assessment.
- 2.12. The most recent self-assessment was undertaken in March 2023 and indicated an overall rating of Amber, with 8 Green ratings (indicating full compliance, an increase of 2 from the previous year) and 9 Amber ratings (indicating that minor to moderate improvements were required to demonstrate full compliance, a reduction of 2 from the previous year).

### **Statutory Accounts**

- 2.13. The sign off and conclusion of the 2019/20 audit on 26<sup>th</sup> May 2023 was a significant milestone for the Council as we have received an “unqualified opinion” on the financial statements for the first time since 2015/16.
- 2.14. The audit of the 2020/21 accounts is approaching conclusion, with the expectation of an “unqualified opinion” being issued.
- 2.15. The 2021/22 accounts were published in November 2023 and the 2022/23 accounts are on track to be published in March 2024.
- 2.16. There is a risk that any audit adjustments identified as part of the audit of the 2021/22 and 2022/23 accounts could impact on the level of reserves.
- 2.17. The Government published a consultation in February 2024 setting out plans to address the local audit backlog.

## **Robustness of the Estimates**

- 2.18. The Finance Team has led the production of the 2024/25 Budget and the 2024/25 to 2026/27 Medium Term Financial Strategy (MTFS) with input from the Councils' Corporate Management Team.
- 2.19. All aspects of the Council's budget, savings, income, service changes, inflation, pressures, capital projects and new revenue bids have been subject to review, with services being required to review the plans they put forward in previous years and confirm delivery of the proposals or, put forward business cases for change where necessary. Budget proposals have subsequently been reviewed by:
- The Finance Team
  - Corporate Management Team
  - Lead Councillors
- 2.20. The 2024/25 budget and the 3-year MTFS have been built on a range of assumptions reviewed and assessed by the Finance Team with support from our professional networks and specialist advisors. These are set out in detail in the Medium-Term Financial Strategy attached as Appendix 1 to the Budget Report.
- 2.21. The 2024/25 budget proposes an increase of £5.464m for Adult Social Care services, an increase of £1.000m for Homelessness, an increase of £1.069m for Waste Disposal and an increase of £7.409m to the contract sum for Brighter Futures for Children.
- 2.22. In order to manage this growth in service budgets while minimising the need to call on one-off reserves, I am proposing the removal of all corporate contingencies. While this is a prudent thing to do in 2024/25 given the reasonable level of our reserves, I will seek to re-instate a suitable level of contingency in future budget planning.

## **Adequacy of Reserves**

- 2.23. The level of reserves a council should maintain is a matter of judgement. The consequence of not having adequate reserves can be significant. In the event of a serious problem or a series of events, the Council could run the risk of a deficit or be forced to cut expenditure in a damaging or arbitrary way should reserves not be available.
- 2.24. The proposed working balance for the General Fund reserve is set at 5% of the net budget requirement. This equates to £8.394m on 31<sup>st</sup> March 2024. I consider this to be an adequate working balance.
- 2.25. The Council also maintains a range of earmarked reserves that are directly linked to the risk areas highlighted in section 3:
- Financial Resilience Reserve. This reserve provides cover for a range of risks including local government funding reform, equal pay and Minimum Revenue Provision for which there are known sector-wide risks but for which we have no specific information that would require inclusion in the approved Medium Term Financial Strategy.
  - Collection Fund Reserve to mitigate against the impact of an economic downturn on the collection of Council Tax and Business Rates.
  - Transformation Reserve to fund the cost of transformation activity.
  - Demographic and Cost-Led Pressures Reserve.
  - Pay and Inflation Reserve.

- Commercial Property Liabilities Reserve.
- 2.26. The Council also maintains the following reserves to protect against the impact of unforeseen events or liabilities:
- Emergency Planning Reserve to cover unforeseen emergencies.
  - Self-insurance Reserve to meet estimated liabilities in connection with internally held risks related to the Council's Insurance programme.
  - Legal and Taxation Reserve to cover one-off legal or tax liabilities.
  - Schools Deficit Liability Reserve.
- 2.27. Earmarked Reserves are also held for the following:
- Unspent revenue grants.
  - Reserves which have a statutory limitation as to their use, such as Schools Balances, Dedicated Schools Grant and Housing Revenue Account (HRA) reserves.
  - Committed but unspent budgeted amounts carried forward at the end of the financial year to deliver specific projects.
- 2.28. The Council's General Fund revenue reserves, including earmarked reserves, were £77.616m on 31<sup>st</sup> March 2023 and are forecast to reduce to £57.308m by 31<sup>st</sup> March 2024. This includes the funding of the projected 2023/24 adverse variance and the planned use of revenue grants brought forward from previous years.
- 2.29. A full schedule of reserves and balances including those which are ring fenced to the Housing Revenue Account and Schools is attached at Appendix 1 together with an explanation as to their intended use. It should be noted that the Earmarked Reserves figures are indicative and will change depending on how quickly associated expenditure is incurred.
- 2.30. The HRA minimum balance is £4.402m for 2024/25 and increases in line with the Consumer Price Index (CPI) annually. The forecast HRA balance, including HRA earmarked reserves, as at 31<sup>st</sup> March 2024 is £41.919m. The 30-year Business Plan shows the HRA balance reducing to a minimum point of £13.400m in year 10 before increasing again in the remaining years of the plan.

### **3. Risk**

- 3.1. Local Government finance is in crisis. In the last six years, eight local authorities have issued a total of twelve Section 114 notices between them, which notifies of severe financial distress - while none had done so in the preceding seventeen years. Moreover, local authorities are increasingly reporting concerns about their financial positions and their ability to maintain delivery of their services.
- 3.2. The financial crisis that local authorities are encountering comes after significant reductions in local authorities' spending power which has itself coincided with increasing demand for their services and inflationary pressures driving up costs. Ultimately, the levels of funding available to local authorities, through council tax, retained business rates, and government grants have not kept pace with these pressures, leading to a funding gap which is estimated at £4 billion over the next two years.

- 3.3. The Local Government Association (LGA) has reported that almost one in five Leaders and Chief Executives of local authorities think it is very or fairly likely that their council will issue a Section 114 notice this year or next.
- 3.4. The proposed 2024/25 budget has been based on current information available, but it is important that the Council is aware of the significant risks it faces in a number of key areas:

### **Inflation**

- 3.5. Inflation climbed steadily between February 2021 and October 2022. The Bank of England has set a target to reduce inflation to 2% by the end of 2025 and has been gradually increasing interest rates to achieve this. As a result, since its peak in October 2022, inflation has fallen significantly and is expected to continue its decline.
- 3.6. Although inflation rates are falling, this does not mean that prices are also falling, just that prices are rising more slowly than before. Inflation rates are still higher than the Bank of England targets and continue to cause significant financial pressures for the residents of Reading and on delivery of council services.

### **Adult Social Care**

- 3.7. Social care is one of the highest budget risks facing local authorities and reform of adult social care is essential. Fundamental charging reforms were to be introduced in October 2023, but these have now been delayed until October 2025. Some of the funding for the charging reforms has since been redirected to address current Adult Social Care pressures, and the Health and Social Care Levy has been scrapped.
- 3.8. The revised implementation date of October 2025 falls after the next general election, which raises questions regarding whether the reforms will actually go ahead as currently planned.
- 3.9. In the absence of those reforms, there are significant pressures in the Adult Social Care system. The 2024/25 Budget includes a proposed increase of £5.464m for Adult Social Care services in 2024/25 to address these pressures, including the Council's commitment to fund care providers at a level that allows them to pay staff the Living Wage Foundation rate rather than the lower National Living Wage rate set by central government.

### **Children's Social Care**

- 3.10. There are even greater financial pressures in Children's Social Care, with increasing demand on services, increasing complexity of need, reducing numbers of foster carers, and an insufficient supply of adequate residential placements driving up costs.
- 3.11. On 31<sup>st</sup> March 2013 there were 68,060 children looked after in England. On 31<sup>st</sup> March 2023, the number stood at 83,840, an increase of more than 23%.
- 3.12. In 2018, there were just 120 placements in England costing at least £10,000 a week. By 2023, that figure had risen to more than 1,500.
- 3.13. Reading is experiencing similar cost pressures. The 2024/25 Budget includes a proposed increase of £7.409m in the Brighter Futures for Children (BFfC) contract sum. This includes inflationary increases and a significant growth pressure in respect of placements for Children Looked After.
- 3.14. However, the number of children in care is continuing to grow and there is concern that even the proposed contract sum increase may not be sufficient. I have therefore earmarked £5.000m in reserves to mitigate that risk.

### **Homelessness**

- 3.15. Private sector evictions have risen significantly following the lifting of Covid restrictions and as a result of cost of living pressures being felt within the housing market. Equally inflation pressures are being seen in the cost of Emergency Accommodation, the average nightly rate in April 2022 was £90 compared to rates reaching as high as £130 in August 2023. There has also been a reduction in the number of available properties to use. The 2024/25 Budget includes a proposed increase of £1.000m in respect of funding this pressure.

### **Waste Disposal**

- 3.16. The 2024/25 Budget includes a proposed increase of £1.069m to the waste disposal budget to address a combination of inflationary increases to the re3 waste disposal contract and rising costs due to changes in the make-up of waste being presented for disposal.

### **Dedicated Schools Grant (DSG) – High Needs Block**

- 3.17. The High Needs Block of the Dedicated Schools Grant provides funding to support pupils and students with Special Educational Needs and Disability (SEND) who require additional support to participate in education and learning.
- 3.18. High Needs Block funding has increased significantly in recent years, but increases have not kept pace with costs. As a result, a significant number of local authorities are accumulating deficits on the High Needs Block. In some cases, those deficits are so significant that they would potentially trigger a s114 notice. As a temporary measure, the Government has issued a statutory override for the Dedicated Schools Grant that excludes DSG deficits from the calculation of General Fund reserves. This override will continue until 31<sup>st</sup> March 2026.
- 3.19. In Reading, the Council is forecasting a cumulative deficit of £12.000m on the high needs block by 31<sup>st</sup> March 2024, with that deficit forecast to reach £27.600m by the time the statutory override ends in 2026.
- 3.20. The Council is one of 55 local authorities taking part in the Department for Education's Delivering Better Value programme. The aim is to support local authorities and their local area partners to improve the delivery of SEND services for children and young people whilst working towards financial sustainability. The Council has been awarded a grant of £1.000m to support the implementation of new programmes of work.
- 3.21. It is critical that action is taken to address this deficit as Council reserves will not be sufficient to fund the projected deficit, potentially triggering the need to issue a s114 notice.

### **Business Rates Reset**

- 3.22. The date of the planned reset of Business Rates is still unknown, as is what, if any, transitional arrangements will be in place to avoid destabilising council's (including Reading Borough Council) who are likely to see a significant reduction in funding when it happens.

### **Funding Reform**

- 3.23. The local government funding system is broken. The local government policy statement 2024 to 2025 confirmed that "the government remains committed to improving the local government finance landscape in the next Parliament" but that "now is not the time for fundamental reform, for instance implementing the Review of Relative Needs and

Resources or a reset of accumulated business rates growth. This continues to be the government's position.”

- 3.24. While stability in the system is to be welcomed, the uncertainty about when fundamental reform will be implemented, and what that reform will be, is creating a high degree of uncertainty that presents a significant risk in medium term financial planning.

### **Commercial Property Investments**

- 3.25. Reading Borough Council has a small portfolio of commercial property investments. While these are currently performing to expectations, they remain a risk in the medium to longer term if income levels can't be maintained.

### **Minimum Revenue Provision**

- 3.26. In December 2023, the Government launched a further consultation on proposed changes to the capital framework for Minimum Revenue Provision (MRP). One of these proposals would, if implemented, require councils to provide MRP on any commercial loans given to third parties and wholly owned companies. MRP would not need to be provided for non-commercial loans as long as the loan was being re-paid. The Council's current MRP Policy, as well as repayment schedules of the loans to the Council's wholly owned companies would therefore need to be reviewed and any required additional budgetary provision made within the Council's revenue budget in order to comply with this change, should it materialise. This could potentially impact on loans made to Reading Transport Limited and Homes for Reading.

### **Savings**

- 3.27. The MTFs assumes £8.465m of additional savings and income, if these are not delivered or there is any delay to their delivery, it would pose a potential threat to the sustainability of the Council's budget. Based on the 2023/24 Quarter 2 Performance and Monitoring Report that was presented to Policy Committee in December 2023, £4.664m of savings are currently at risk of non-delivery. As part of the 2024/25 budget setting process, a review of all existing savings proposals was carried out and where appropriate, non-deliverable savings were either reprofiled, reduced or removed depending on the underlying cause for their not being delivered in year.

- 3.28. There are also the following risks in respect of the Council's wholly owned companies:

- Reading Transport Limited (RTL) – Customer numbers have continued to rise in 2023/24. After averaging at 78.7% of pre-COVID levels through 2022/23, the new financial year saw numbers rise to 81-83% in the first few periods followed by a significant step up in periods 6-8 where it carried 86-88% compared to 2019/20. Period 7 saw the highest number of customers carried since Period 11 (February) 2020. Financial performance has also been improving, although the most recent published accounts for the year ended 2<sup>nd</sup> April 2023 show that profit before tax dropped from £0.826m to £0.526m, despite income increasing from £47.400m to £55.668m.
- Homes for Reading (HfR) – the Council's current dispensation to not charge Minimum Revenue Provision on borrowing relating to loans given to HfR is reliant on the value of the fixed assets on the company's Balance Sheet exceeding the loan liability. The asset valuation is dependent on the economy and the housing market.
- Brighter Futures for Children (BFfC) - the Council's children's company has requested a contract sum of £58.839m which is an increase of £7.409m compared to the 2023/24 contract sum. This covers increased inflationary pressures relating to pay and contractual inflation, school travel demand pressures and especially



the increasing costs of children's social care placements. The demand pressures on travel as well as social care placements present an on-going risk in terms of numbers and complexity.

#### **4. Contribution to Strategic Aims**

- 4.1. Full details of the Council's current Corporate Plan and the projects which will deliver these priorities are published on the Council's website. These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective, and economical. The updated Corporate Plan is presented to Council elsewhere on this agenda.
- 4.2. Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

#### **5. Environmental and Climate Implications**

- 5.1. These are set out in the other budget reports on this agenda.

#### **6. Community Engagement**

- 6.1. The public were consulted as part of the 'Budget Engagement', which ran from 15<sup>th</sup> December 2023 until 19<sup>th</sup> January 2024. The feedback from this engagement, alongside the feedback from the Residents' Survey 2023 is set out in Appendices 11 and 12 of the 2024/25 Budget & Medium Term Financial Strategy 2024/25-2026/27 report.
- 6.2. The Council consulted with local business rate payers on 5<sup>th</sup> February 2024 as part of its statutory requirements.

#### **7. Equality Implications**

- 7.1. These are set out in the other budget reports on this agenda.

#### **8. Other Relevant Considerations**

- 8.1. There are none.

#### **9. Legal Implications**

- 9.1. The provisions of section 25, of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to Full Council at its budget setting meeting in February.

#### **10. Financial Implications**

- 10.1. These are set out in the main body of this report.

#### **11. Timetable for Implementation**

- 11.1. Not applicable.

#### **12. Background Papers**

- 12.1. There are none.