

## Overview and Scrutiny Committee

24<sup>th</sup> January 2024

<b>Title:</b> Budget Strategy 2024/25 to 2026/27	
<b>Report of the Cabinet Member for Finance, Growth &amp; Core Services</b>	
<b>Open Report</b>	<b>For Decision</b>
<b>Wards Affected:</b> All	<b>Key Decision:</b> Yes
<b>Report Author:</b> Nish Popat – Deputy Section 151 Officer	<b>Contact Details:</b> Tel: TBA
<b>Accountable Strategic Director:</b> Jo Moore, Interim Strategic Director, Resources (S151 Officer)	
<b>Summary</b>  <p>On 18<sup>th</sup> July 2023, the Cabinet approved a refreshed Medium Term Financial Strategy (MTFS) for 2023/24 to 2027/28 for the Council's General Fund and this Budget Strategy report was presented to Cabinet on 19<sup>th</sup> December 2023. The report was prepared on the backdrop of financial uncertainty arising from a period of increasing inflation following conflict in Ukraine and the COVID-19 pandemic. The Council continues to experience cost pressures which is resulting in overspends against budget.</p> <p>This report re-considers that strategy and refreshes the financial plan in light of a detailed review of the Council's current financial risks and challenges that it faces. There will always be an element of uncertainty inherent in financial forecasting and this report is based on predictions of funding ahead of the Local Government Draft Settlement which is not likely to be issued until just before Christmas.</p> <p>However, following the Autumn Statement by Government in November there is an expectation of a one-year funding settlement for 2024/25 particularly with an expected election next financial year. Whilst local authorities have previously been given indicative funding forecasts at a sector level, at this stage there is uncertainty surrounding the allocation of funding from Government on an individual borough basis. The financial plan will be updated with the Final Settlement figures for the final Budget Framework report planned for Cabinet in February 2024.</p> <p>It is in this context that the report updates Cabinet on changes to the Council's medium term financial position and includes the latest projected <b>budget gap of £23.335m</b>. This gap is after the identification of £10.618m of savings. The <b>net savings</b>, after growth is <b>£8.327m</b>. The savings proposals are included within this report and approval is sought to begin consultation on those proposals.</p> <p>Policy statement issued by Central Government in early December confirms that the Government's intended approach is to increase Council Tax in line with 2023/24.</p> <p>Given the financial challenges that the Council is facing, the assumption is that the permitted increase will be agreed by Members and applied.</p>	

The final budget report to be presented to Cabinet and Assembly in February 2024 will also include the Council's 5-year capital programme which will be accompanied by a proposed Capital Strategy and the revenue impacts on the General Fund proposals.

The Council's DSG and HRA budgets will also be presented together with the revised Treasury Management Strategy for 2024/25 and beyond.

### **Recommendation(s)**

The Overview and Scrutiny Committee is recommended to:

- (i) Note the MTFS Budget Gap for 2024/25 and for the next two financial year
- (ii) Note new proposed savings and growth proposals put forward for 2024/25 as set out in Appendix 1 and discuss any issues that need further exploration.

### **Reason(s)**

The setting of a robust and balanced Medium Term Financial Strategy will enable the Council to provide and deliver services within its overall corporate and financial planning framework. The Medium-Term Financial Strategy underpins the delivery of the Council's vision of: One borough; one community and no one left behind and delivery of the priorities within available resources.

## **1. Introduction and Background**

- 1.1. This report presents the latest financial budget gap for 2024/25 and sets the context for the future financial position for the London Borough of Barking and Dagenham. This budget strategy aims to update Cabinet on the work done to arrive at the latest financial position and seeks the Cabinet's approval to begin the statutory and necessary consultation process.
- 1.2. As detailed in section 2 of this report, the Council is facing a significant shortfall in its budget to reach a balanced budget for 2024/25 which has predominantly arisen because of significant cost pressures arising from high inflation, increases in interest rates, increases in demand and/or change in the needs of existing service users.
- 1.3. This has led to the 2023/24 base budgets being under considerable pressure which is borne out in the Period 7 budget monitoring report presented as a separate report on the same agenda and highlights a forecast £11.6m overspend in 2023/24, predominantly in the People and Resilience Directorate.
- 1.4. These base budget pressures are projected to continue in future years. This report reflects those challenges together with future projections of new pressures forecast next year in 2024/25.
- 1.5. This Budget Strategy report will underpin the Council's Budget Framework and Medium-Term Financial Strategy planned for February 2024 Cabinet and Assembly. The Medium-Term Financial Strategy (MTFS) is a statement on the Council's approach to the management of its financial resources to meet its Corporate Priorities.
- 1.6. The Council is currently only planning on a MTFS 3-year horizon (2024/25 to 2026/27) due to significant level of uncertainty post 2024/25 and the wider context

within which it is operating. It is expected that the UK will see a General Election in 2024/25 and for this reason estimating future funding streams is difficult (with or without a change in government) and further macro-economic scenarios are likely to arise next financial year which will require a further refresh to the MTFS with the ambition to propose a new 5-year plan.

- 1.7. Looking at the wider context, Barking and Dagenham is likely to be facing further inflationary pressures, expectations of rising demand for services and/or changes in complexity of need, particularly for social and housing provision. The financial sustainability of the whole of Local Government is under stress and this has been seen by a number of Local Authorities issuing a Section 114 notice, effectively signifying their inability to deliver a balanced budget. However, what is different now is that the reason for these notices is purely that increases in funding have not kept pace with expenditure.
- 1.8. The Government published their Autumn Statement on 22 November 2023. This set out the spending proposals for government, including the Department for Levelling Up, Homes and Communities (DLUHC), for the next 5 years with a number of policy and funding announcements related to local government. However, DLUHC are anticipated to provide a one-year funding settlement for 2024/25 with only indications on the direction of travel for later years.
- 1.9. DLUHC are in the process of allocating funding to individual local authorities and these allocations will be published in late December 2023. The draft Local Government Finance Settlement will provide the basis on which the detailed budget for 2024/25 is prepared for approval by Assembly in February 2024.
- 1.10. Previous budget reports have commented on the significant reduction in funding from Central Government, with the key measure of Core Spending Power, continuing to show reduced level of funding since 2010. The 2023/24 financial year saw an average increase of 9.2% in core spending power (CSP) – the government's measure of overall core funding – for London boroughs from £8.01bn to £8.75bn. However, despite the overall increase, CSP for London Boroughs will remain 18% below 2010 levels in real terms.
- 1.11. Rising interest rates impacts on the Council's borrowing costs and in particular on the ambitions of the Council's Investment and Acquisition (IAS) Strategy.
- 1.12. The IAS Strategy was established to be self-financing and had a target ambition of delivering a 5% revenue return to the Council both of which are now at real risk. An inherent aspect of the IAS, and regeneration more generally, is the length of time it takes from a decision being taken by Cabinet to proceed with a regeneration scheme and the actual delivery of that scheme.
- 1.13. This long duration, often spanning many financial years, means that the Council is exposed to construction cost risk until such time as development contracts are entered into but also interest rate risk. Unfortunately, global events in recent years have meant that both these risks have crystallised with significant increases in both construction costs and interest rates.
- 1.14. These changes have had significant impacts on IAS scheme viabilities with many schemes not delivering anywhere near the returns that were originally forecast and

this was highlighted in the two reports for Beam Park and Gascoigne 3b which were presented to Cabinet in September 2023.

- 1.15. They have also made the approval of new schemes extremely difficult, and the Council has spent just over £13m on scheme initial phase costs and is struggling to find viable solutions to be able to progress those schemes.
- 1.16. In order to carry out regeneration the Council also makes open market purchases by way of land assembly for those schemes and for this reason has acquired a significant IAS Commercial Portfolio. As these are assets which are being held for regeneration purposes, and may be disposed of, they have been funded by short-term borrowing for which there has been a sharp increase in costs.
- 1.17. The Council's subsidiaries financial positions are also integrated into the Council overall financial position with the Council's base budget including a permanent income budget of just under £13m for dividend income receivable from its subsidiaries. Difficulties with new scheme viabilities has led to a reduction on regeneration activity which in turn impacts on fees earned by the Council's regeneration subsidiary and their ability to declare dividend income.
- 1.18. The Council has also made working capital and other loans to its subsidiaries and there are financial risks associated with both the dividend income and the servicing of the subsidiary debt. Relevant officers and Members are working closely with the Chief Executive and Boards of those subsidiaries to ensure that there is no financial impact on the Council's HRA or General Fund over the MTFS period. This report makes certain assumptions in this respect which may need to be revisited once that work has completed.
- 1.19. The MTFS also considers the appropriate level of reserves that the Council holds to mitigate current and longer-term risks. The Council's S151 Officer will be required to make a statement (known as the Section 25 statement) that the budget proposals are robust and that the proposed levels of reserves (after setting the budget) are adequate taking into account the financial risks that the Council is facing.
- 1.20. The Council continues to try to find ways to tackle all of these challenges to enable a balanced budget to be set and that poor performance is improved so that target income and financial returns are achieved.
- 1.21. Medium term financial planning must make assumptions about the future demand profile and cost pressures on expenditure and on factors that affect income sources and there is always the inherent risk that these assumptions may prove to be incorrect. The MTFS represents a summary of these assumptions and their impact on the funding of the council.

## **2. Council Priorities and Strategic Framework**

- 2.1. The MTFS is underpinned by the Council's Corporate Plan 2023-26 which sets out the vision of the Council to make Barking and Dagenham a place people are proud of and where they want to live, work, study and stay, whilst ensuring that no-one is left behind.

2.2. The Corporate Plan 2023-26 sets out the seven strategic priorities by which this vision will be achieved:

- **Residents are supported during the current Cost-of-Living crisis;**
- **Residents are safe, protected and supported at their most vulnerable;**
- **Residents live healthier, happier, independent lives for longer;**
- **Residents prosper from good education, skills development and secure employment;**
- **Residents benefit from inclusive growth and regeneration;**
- **Residents live in and play their part in creating safer, cleaner and greener neighbourhoods;**
- **Residents live in good housing and avoid becoming homeless;**

2.3. To support our priorities a set of principles have been developed to be applied to our work across the whole Council. These principles, together with our values and culture, will drive service delivery, performance, and innovation:

- Work in partnership;
- Engage and facilitate co-production;
- Be evidence-led and data driven;
- Focus on prevention and early intervention;
- Provide value-for-money;
- Be strengths-based ;
- Adopt a "health in all policies" approach;
- Strengthen risk management and compliance.

### **3. Revised Budget Gap 2024/25 and Budget Assumptions**

3.1. The updated MTFs identifies a potential 2024/25 budget deficit of £23.335m, after allowing for savings proposals totalling £10.618m. The net savings, after growth is £8.327m. The cumulative budget deficit increases to £37.053m by 2026/27 as detailed in Table 3 below. The current proposed savings for 2024/25 are outlined in Appendix A although officers and members are continuing to work together to identify further potential areas for budget savings.

3.2. This is an increase in the funding gap compared to £11.865m reported to Cabinet in July 2023 and section 5 of this report details the key drivers for this significant worsening position.

3.3. The Period 7 monitor, also included as part of the same Agenda Pack as this report, forecasts a £11.605m overspend after projected net drawdown of reserves of £4.888m. In addition, the Council has budgeted to receive £10.3m dividend income from Be First, which is now at risk and likely to be funded by further reserve drawdown. Without the use of reserves the overspend for 2023/24 would be £26.7m. Unfortunately, the forecast overspend is being largely driven by new permanent budget pressures and demonstrates that the Council's budgets are not sustainable.

3.4. Further work undertaken by officers since July, has identified local historic legacy budget risks which have now been corrected and accurately reflected in next year's financial plan. The total additional Growth is £45.778m, which includes all growth

proposals and correction of legacy budget shortfalls and reversal of non-achievable savings from 2023/24.

- 3.5. The 2023/24 budget was also supported by a drawdown on reserves of nearly £9m in order to set a balanced budget. Using reserves in this way is only a temporary measure as reserves are a one-off source of funding. Without identifying plans to address this shortfall in 2023/24, this has added additional pressures onto 2024/25. Reserve drawdowns have also supported the Council's finances last financial year with the result that the Council's earmarked reserves have reduced significantly.
- 3.6. This includes the rising cost of financing the Council's relatively large debt balance. Over the past 12 months the cost of borrowing has risen due to rising Bank of England's base rate. The weighted average cost of borrowing has risen from 2.07% to 2.56% and this is impacting on the interest payable budget, particularly as the Council is required to re-finance its debts.
- 3.7. From 2024/25 the Council's policy to support alignment with the London living Wage be considered on a contract-by-contract basis, in consultation with the relevant Portfolio Holder.
- 3.8. The Budget plan for next financial year and for the following two years includes a range of savings and growth proposals that have been generated during this financial year along with those approved in July 2023 Cabinet report. The Council initiated two rounds of savings requests from Directorates which were carried out between September 2023 and November 2023. A total of £10.618m in savings have been found which includes £0.571m from those that were pre-approved in July 2023.
- 3.9. A summary of the 2024/25 savings and growth by Directorate proposed to-date is set out in Table 1 below.

**Table 1 – Savings and Growth summary by Directorate**

Directorate	Feb-23 Savings £'000	Feb-23 Growth £'000	Star Chamber Savings £'000	Oct-23 Savings £'000	Oct-23 Growth £'000	Total Net Savings £'000
Community Solutions	(150)	42	(184)	(1,105)		(1,397)
Inclusive Growth		1,233			(567)	666
Law & Governance			(352)	(90)		(442)
My Place	(215)	1,000	(1,822)	(1,108)		(2,145)
People and Resilience		570	(1,307)	(2,142)	13	(2,865)
Resources	(56)			(983)		(1,039)
Strategy	(150)		(566)	(389)		(1,104)
<b>Grand Total</b>	<b>(571)</b>	<b>2,845</b>	<b>(4,230)</b>	<b>(5,817)</b>	<b>(554)</b>	<b>(8,327)</b>

- 3.10. It is crucial that these savings are delivered as proposed. Failure to deliver these savings will result in an overspend in 2024/25 and an increase in future year budget gaps. Officers have reviewed these savings proposals and at this stage all are viewed as deliverable.

3.11. Further savings proposals are in development and are due to be submitted to Finance by 15th December. These will be presented to Executive Team on 21st December for formal sign-off. The Strategic Director, Resources (S151 Officer), in consultation with the Deputy Leader and Cabinet Member for Finance, Growth & Core Services, will agree additional savings proposals to be included for public consultation.

3.12. As highlighted above the outcome of the provisional financial settlement for Local Government was not known at the time of writing this report and therefore further prudent assumptions in relation to funding streams have also been made. Table 2 below details some of the key assumptions that have been made when setting the 3-Year MTFs. Despite the uncertainty regarding the level and type of future government support, the Council is required to develop plans for its 2024/25 budget.

3.13. These funding assumptions will only be finalised once the final settlement is issued by Department of Levelling Up, Homes and Communities (DLUHC) in January 2024.

**Table 2 - Budget Assumptions**

Item	Assumption Level	Total Allocation	Explanation
<b>Expenditure</b>			
Pay Inflation	5%	£8.862m	This reflects the net agreed average increase across all pay grades in 2023/24 with similar pressure on pay expected in future years. This allocation will be under review with further economic data being released over coming months
Contract Inflation	5%	£8.766m	Whilst inflation has eased over the past few months, a prudent provision is maintained due to uncertainties within the macro-economy.
Social Care New Demand	£13.5m	£13.5m	This reflects the overspend that the People and Resilience directorate currently faces
Other Demand and Demographic Changes		£2m	A total of £2m has been added as contingency to support unknown demand and other pressures.
Interest Costs	3%	£14.043m	Assumes further increases on weighted average cost of debt as current interest are much higher than have been in the past.
<b>Funding</b>			
Council Tax General Rate Increase	2.99%		In line with previous increases within the referendum cap.
Council Tax Base Increase	55,336		1.7% increase in Council Tax base in-line with prudent estimation of new properties being delivered in the Borough.
Council Tax Adult Social Care Precept Increase	2%		In line with previous increases within the referendum cap.
Business Rates Increase	4.6%	£25.062m	In line with September CPI print
Social Care Grants	4.6%	£19.716m	In line with September CPI print.

3.14. The net General Fund expenditure budget for 2023/24 is £199.002m, a net increase from the previous year (2022/23) of £15.942m. Based on savings and growth adjustments for the net General Fund expenditure Budget for 2024/25 will rise to £234.162m with net funding currently projected to be £210.828m.

3.15. The 2024/25 forecast budget is summarised in Table 3 below.

**Table 3 – Medium Term Financial Strategy**

	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m
<b>NET COST OF SERVICES</b>	<b>199.002</b>	<b>234.162</b>	<b>248.423</b>
<b>Financial Planning</b>			
Savings - Existing Plans	(0.571)	(1.198)	(0.988)
Pre-Approved Growth	16.196	5.343	5.424
Savings Identified 23-24	(10.047)	-	-
Growth Identified 23-24	12.887	-	-
Inflation and Demographic Change	16.695	10.116	10.068
Capital	-	-	-
<b>Reserves</b>			
Contributions to Earmarked Reserves	-	-	-
Contributions from Budget Support Reserve	-	-	-
Contribution from Collection Fund Smoothing Reserve	-	-	-
Use of General Reserve	-	-	-
<b>Net Expenditure after Reserves</b>	<b>234.162</b>	<b>248.423</b>	<b>262.927</b>
<b>Funding</b>			
RSG	(22.274)	(22.274)	(22.274)
NDR	(25.062)	(23.000)	(23.000)
NDR Top Up and S31 Grants	(38.601)	(43.862)	(43.862)
(Surplus)/Deficit on Collection Fund	2.821		
BRR Pooling	(1.000)	(1.000)	(1.000)
Council tax	(80.973)	(85.887)	(91.042)
S31 Grants and Other Admin Grants	(5.104)	(14.900)	(14.900)
Market Sustainability & Fair Cost of Care Grant	(3.215)	(3.215)	(3.215)
Services Grant	(2.333)	(2.333)	(2.333)
Social Care Support Grant	(19.716)	(19.268)	(19.268)
NHB	(1.938)	(1.938)	(1.938)
<b>Core Funding Total</b>	<b>(197.396)</b>	<b>(217.677)</b>	<b>(222.832)</b>
Company Dividends	(10.390)		
Investment Income	(3.042)	(3.042)	(3.042)
Investment/Subsidiary Income	(13.432)	(3.042)	(3.042)
<b>Total Funding</b>	<b>(210.828)</b>	<b>(220.719)</b>	<b>(225.874)</b>
<b>Cumulative Budget Gap</b>	<b>23.335</b>	<b>27.703</b>	<b>37.053</b>



- 3.16. A detailed breakdown of the Budget against each Directorate has been provided in Appendix B.
- 3.17. Table 3 presents a cumulative gap position with significant pressures in 2024/25, which once covered will ease pressures in future years. Therefore, if the Council can find additional permanent savings to bridge the £23.335m gap, the gap for 2025/26, based on current assumptions, will reduce to £4.37m. However, if it cannot find these savings then the gap will increase by any shortfall.
- 3.18. With a forecast £11.065m overspend forecast for 2023/24, a residual budget gap for 2024/25 of £23.335m and significantly reduced usable General Fund reserves, Barking and Dagenham faces serious financial challenges. The Council must reduce its expenditure significantly over the short to medium-term to match its funding and income. Difficult decisions are required on service delivery to ensure that the Council reaches a sustainable budget position. The Council will also need to ensure all inefficiencies are tackled and it also re-considers its capital investment needs as the Council continues to take on new debt which results in increased Minimum Revenue Provision and interest costs.
- 3.19. The Investment and Acquisition Strategy will also need to be reviewed and potentially an amended strategy brought forward either before, or at the same time, as the Council's MTFs and 2024/25 final budget proposals.

### **Financial Measures to support a balanced budget**

- 3.20. In identifying further savings proposals, further financial measures that the Council may consider closing this deficit include:
- Reconsider inflationary pressures for next year and ensure the Council better negotiates with its suppliers to limit increase for future years;
  - Minimise the need for additional future capital borrowing by realising increased capital receipts;
  - Reviewing the IAS commercial portfolio to reduce the current forecast pressure and working with the wholly owned Council companies to improve returns to the Council;
  - Continue scrutiny of the Council's vacancies and agency costs and ensure these are managed at the most appropriate levels;
  - Constraining new demand and demographic growth requests within the funding envelope assumed within the forward financial plan and/or identifying alternative funding streams and improve the prevention strategy;
  - Development of a robust reserves strategy and action plan for the Council that mitigates against key financial risks whilst supporting necessary investment;
  - Review the resource forecast as it evolves over the forthcoming months. It will be updated in line with new government announcements and actual data on business rates and council tax collection;
  - Dialogue with central government on the options available to share the Council's financial burden across government, the Council and residents as service recipients.

## **4. Government Funding Changes**

- 4.1. Key funding streams for 2024/25 and their contribution to the Council's budget are detailed below.

- **Council Tax** – DLUHC are expected to confirm in the draft Local Government Finance Settlement that there will be a council tax referendum threshold of 2.99% with an adult social care precept of 2% for 2024/25. The MTFS currently assumes the total 4.99% increase in council tax 2024/25 and similar increases for 2025/26.
- Growth in the council tax base has been estimated by using data on expected new homes being occupied over the MTFS period. A prudent deduction has been made to account for properties that may be delayed or where council tax will not be payable in full, e.g., recipient of CTS. This assumption will be kept under review annually.
- The total Council Tax for Barking and Dagenham is budgeted at £80.972m a net increase of £3.192m after adjusting for the revised CTRS scheme that is undergoing consultation as per the October 2023 Report.
- **Business Rates** – from 1 April 2023 a revaluation was implemented which has resulted in increases in valuations to which Business Rates will be calculated. An increase of £3.72m is assumed in the overall funding receivable from business rates in 2024/25 from new developments within the borough and through allowance for inflation. As part of the Autumn Statement For 2024/25, the small business multiplier in England will be frozen for a fourth consecutive year at 49.9p, while the standard multiplier will be uprated by September CPI to 54.6p. The current 75% relief for eligible Retail, Hospitality and Leisure (RHL) properties is being extended for 2024-25.
- Local Authorities will be fully compensated for the loss of income because of these business rates measures and will receive new burdens funding for administrative and IT costs.
- **Business Rates Pooling 2024/25** - The Council has agreed to participate in business rates pool with Thurrock and Havering and this is expected to generate a further £1.00m in additional funding for the Council. This arrangement will be reviewed annually in line with projection from Pool partners to ensure the Council continues to benefit from the arrangement.
- **Social Care Funding** – Local Government will continue to receive Social Care funding in addition to the 2% Adult Social Care precept. It is expected that the Social Care Grant will increase in line with Inflation and the MTFS projects an increase to £19.71m from £16.627m in the current year.

4.2. **Various Grants** – Over the past couple of years the Government has announced a few grants to support Local Authority Budgets and these grants (listed below) are expected to continue in 2024/25 and over the next 3 years of the MTFS cycle.

- **New Homes Bonus** – The Council will continue to receive its share of the New Homes Bonus to reflect and incentivise housing growth in their areas. The Government has committed to maintaining the funding of the NHB. However no specific details have been provided to increases in future years and therefore the budget plan assumes a constant allocation from current year to 2024/25 with no increases in 2025/26 onwards.

- Previously this grant was budgeted as part of the total return from investment in Be First. However, upon further review this has now been split into a separate line to reflect the direct award to the Council.
- **Public Health Grant** – this is a ringfenced grant and, whilst we assume the grant will continue at current levels, there is a lack of clarity on whether there will be additional funding to support ongoing public health initiatives related to the recovery from COVID-19.

## 5. Budget Changes from July 2023 and Budget Risks

5.1. The report to Cabinet in July 2023 set out the following financial forecasts over the medium term:

	2024-25 £m	2025-26 £m	2026-27 £m
Budget Gap (incremental)	11.865	3.682	9.413
Budget Gap (cumulative)	11.865	15.547	24.960

5.2. A review of the assumptions has been undertaken and the financial forecast has been updated as shown in the table below. These updates are best estimates of the impact of the changes and are subject to change before the MTFs is presented for approval in February / March 2024:

	2024-25 £m	2025-26 £m	2026-27 £m
<b>Budget Gap July 2023 (cumulative)</b>	11.865	15.547	24.960
Legacy Budget Corrections	3.604	0	0
Net Budget Changes (Growth and Savings 2023)*	7.866	12.156	12.093
<b>REVISED BUDGET GAP</b>	23.335	27.703	37.053

\*subject to consultation and approval

## 6. Council Reserves

6.1. Barking and Dagenham is facing considerable financial pressures and whilst the Council's reserve balances have been strong over recent years, that support is now being diminished as those reserves have been utilised. The Council's ability to rely on reserves is now largely over and structural changes will be required to ensure a sustainable balanced budget position.

6.2. The Council's S151 Officer will be required to make a statement as to whether the reserves are adequate for the financial risks that the Council is facing in 2024/25 and beyond. This is a professional judgement based on the risks identified, how likely they are to materialise, and the financial impact should they do so.

- 6.3. A significant piece of work has been undertaken to review the Council's earmarked reserves, revisiting whether they are still required for the original purpose they were set aside for. For any reserve funds that have been identified as no longer required, approval will be sought to move the released funds into the Budget Smoothing Reserve to bolster the Council's financial sustainability as there are currently no provisions to replenish reserves within the Council's base budgets.
- 6.4. The Period 7 monitoring for 2023/24 includes outcomes from that work and proposals to move released earmarked funds to the Budget Smoothing Reserve. The table below sets out the projected General Fund reserve balances at 31 March 2024 in-line with the Period 7 request being implemented.

**Table 4 – Summary of Reserves.**

	Opening Balance	Budgeted Drawdown 23-24	In Year Inter Reserve Transactions 23-24	Planned Drawdowns 23-24 (P6)	Drawdowns not in P6 - require approval	Transfer to Reserve (P6)	Release to BSR - require approval	Current Balance
	£'m	£'m	£'m	£'m	£'m	£'m	£'m	£'m
General Reserves	(17.03)	0.00	0.00	0.00	0.00	0.00	0.00	(17.03)
Budget Support Reserve	(16.84)	13.51	0.53	0.00	0.00	0.00	(3.68)	(6.48)
<b>Sub total</b>	<b>(33.87)</b>	<b>13.51</b>	<b>0.53</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(3.68)</b>	<b>(23.51)</b>
<b>Ring Fenced Reserves</b>	<b>(49.30)</b>	<b>0.00</b>	<b>(0.53)</b>	<b>4.32</b>	<b>5.49</b>	<b>(1.64)</b>	<b>1.53</b>	<b>(40.13)</b>
<b>Non-ringfenced Reserves</b>	<b>(21.18)</b>	<b>1.50</b>	<b>0.00</b>	<b>1.64</b>	<b>4.66</b>	<b>0.00</b>	<b>1.95</b>	<b>(11.43)</b>
<b>IAS Reserves &amp; Capital Reserves</b>	<b>(42.95)</b>	<b>0.00</b>	<b>0.00</b>	<b>10.39</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>(32.56)</b>
<b>Total</b>	<b>(147.29)</b>	<b>15.01</b>	<b>0.00</b>	<b>16.35</b>	<b>10.15</b>	<b>(1.64)</b>	<b>(0.20)</b>	<b>(107.63)</b>

- 6.5. If the projected overspend of £11.6m for 2023/24 continues then this will also need to be funded from reserves.

## 7. Proposed Consultation Process

- 7.1. As the Council is proposing new savings proposals, it is intended that consultation events will be undertaken as follows:

- An online budget consultation will commence on 20th December 2023, following publication of the draft local government finance settlement.
- Budget consultation Facebook Live with the Leader and Cllr Twomey will take place on 16<sup>th</sup> January 2024

- 7.2. Cabinet will be asked to recommend the 2024/25 budget on 19<sup>th</sup> February 2024 with Assembly being asked to formally approve 28<sup>th</sup> February 2023. All the responses to the communications and consultation paper will be collated in early January and will be presented to Councillors before final decisions are taken on the budget in February 2024.

- 7.3. This report commences the 2024-25 budget engagement with residents, businesses, the voluntary sector and other stakeholders.

7.4. It is important that a wider audience fully understands the position the Council faces and so the Council Officers have been engaging with Central Government and its Councillors throughout the development of this Budget Strategy.

## **8. Capital Programme**

8.1. The MTFs proposals within this report include a provision of £5m to fund a small corporate capital programme for operational requirements pending the outcome of work underway on the Council's Capital Strategy and associated capital programme. The process is being co-ordinated by the Capital and Assets Board.

## **9. Financial Implications**

Implications completed by

9.1. As this is a financial report by the Council's S151 Officer, the financial implications are as set out in the main body of this report.

## **10. Legal Implications**

Implications provided by Dr Paul Feild, Principal Corporate Governance Solicitor

10.1. Local authorities are under an explicit duty to ensure that their financial management is adequate and effective and that they have a sound system of internal control and management of financial risk. This report contributes to that requirement. Specific legal advice may be required on the detailed implementation of any agreed savings options.

10.2. The strain on logistics of the Covid 19 epidemic has raised on-costs and scarcity particularly for products sourced overseas, the costs have not returned to pre-Covid levels and the War in Ukraine persists with the knock-on effect particularly impacting on food and energy costs. There is no reason to suppose that in 2024 the situation will be alleviated, indeed there will be more uncertainty with the United States Presidential election in Autumn 2024 as well as the General Election in the UK being called as early as May. As explained in the body of this report construction inflation and the precarious domestic and commercial property environment in terms of value stability presents the Council with the prospect of the need to purchase additional supplies and services with heavy competition for scarce resources. Furthermore, there are additional regulatory pressures on property development raising costs. Value for money and the Local Government Act 1999 best value duties still apply. There is also the issue of the Councils existing suppliers and service providers also facing issues of pressure on supply chains and staffing matters of availability. As a result, these pressures will inevitably create extra costs which will have to be paid to ensure statutory services and care standards for the vulnerable are maintained.

10.3. Where budgetary balancing requirements proposals identify the need for the reduction of, or closure or discontinuance of a service or services, appropriate consultation will need to be carried out. So savings proposals that affect staff will require consultation with Unions and employees. In addition to that Members will need to be satisfied that Equality Impact Assessments have been carried out before the proposals are decided by Cabinet because the Public Sector Equalities Duty

(“PSED” set out in section 149 of the Equality Act 2010 obliges the Council in performing its functions “to have due regard to” the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this [Equality] Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it”.

This means an assessment needs to be carried out of the impact of financial strategy measures and a decision taken in the light of such information within the PSED context.

10.4. Further clarification has been given by the Supreme Court as to the following as general principles of consultation being:

- That consultation must be at a time when proposals are still at a formative stage;
- That the proposer must give sufficient reasons for any proposal to permit intelligent consideration and response;
- That adequate time must be given for consideration and response; and
- That the product of consultation must be conscientiously taken into account in finalising any statutory proposals.

10.5. If at any point a resort to constricting expenditure is required, it is essential that due regard is given to statutory duties and responsibilities. In particular the Council must have regard to:

- any existing contractual obligations covering current service provision. Such contractual obligations where they exist must either be fulfilled or varied with agreement of current providers;
- any legitimate expectations that persons already receiving a service (that is earmarked for reduction) may have to either continue to receive the service or to be consulted directly before the service is withdrawn;
- any rights which statute may have conferred on individuals that as a result of which the council may be bound to continue its provision. This could be where an assessment has been carried out for example for special educational needs following a statement of special educational needs;
- the impact on different groups affected by any changes to service provision as informed by relevant equality impact assessments;
- the response to any consultation undertaken.

## **11. Risk Management**

11.1. In each of the areas set out in this report, the significant risks have been identified with some of the impacts from those risks highlighted for consideration. Mitigation for those risks is alluded to within this report and have been integrated into the implementation plan to deliver the Budget Strategy.

## **12. Equality Impact Assessments**

12.1. Full Equality Impact Assessments will be carried out on all applicable proposed savings at early stages of the planning process and be an essential part of the decision-making process, to ensure that the Council continues to fulfil its Public Sector Equality Duty.

### **Public Background Papers Used in the Preparation of the Report:**

- Budget Framework 2023/24 and Medium-Term Financial Strategy 2023/24 to 2026/27 – February 2023 Cabinet
- Medium Term Financial Strategy and Reserves Policy 2023/24 to 2027/28 – July 2023 Cabinet

### **List of appendices:**

Appendix A –2024/25 to 2026/27 Savings Proposals

Appendix B – Projected 2024/25 Budgets