Report of the Chief Finance Officer on the robustness of the budget estimates, adequacy of the Council's reserves and risk 2024/25

Introduction

Section 25 of the Local Government Act 2003 places a duty on the Chief Financial Officer to make a report to the Council on the robustness of the budget estimates and the adequacy of the Council's reserves. The Council must have regard to this report when making its decisions about budgets and council tax for the forthcoming year.

Robustness of Budget Estimates

This is inevitably a hot topic in a year where we are reporting overspends against the current 2023/24 budget that, despite the application of all available grants and earmarked reserves, are approaching £10m at year end. Even after offsetting with the contingency budget, the overspend has taken our reserves below £4m (at the time of writing).

The current position has been reached despite a swift and strong clampdown on all discretional spending and the early implementation of the increased fees and charges for 2024/25. Without these measures, the situation would inevitably be worse.

So why has this happened, and even more importantly, what's to stop it happening again?

The reasons for the overspend are many and varied. It's become very apparent that the funding allocated to our statutory social care, Adult social care in particular, was not enough and that area alone accounts for almost 70% of the overspend. Several large contracts have risen by CPI and the increases were higher than budgeted.

We've also seen large increases in other contracts which do not have automatic uplifts built into them. Most notably in Adult social care where most of the provision is bought from the open market. Demand is high and supply is low, so providers are taking the opportunity to refuse to renew our existing fixed price contracts and instead increase charges by amounts that are significantly above inflation, knowing that we as a council have a statutory duty to provide that care and therefore have little option but to buy that service from them. The officers who manage these contracts negotiate hard and, without their intervention, the situation would be much worse, but this has added millions of pounds of unbudgeted cost to our expenditure.

The 2024/25 budget process took a different approach and we started very much from the bottom up. We've taken steps to ensure that the process was robust, strengthened our confidence in the output and addressed the issues we've found, regardless of how they came about.

Acknowledging the scale of the problem – we had a £6m budget gap to close and in addition to that, we needed to add at least £5m to adult social care alone to close the gap between current demand and baseline budget – we gave services a net savings target of around 10%. We accepted from the start that it's potentially more feasible to find reductions in discretionary services than statutory responsibilities, but equally, with our Adult and Children's social care budgets making up 80% of our overall net expenditure, it's clearly not possible to find all the required budget adjustments outside of those. Some areas were able to overachieve this target, and some were unable to reach it for valid reasons, but the ambitious target set, and the depth of the work done by each service area, meant that overall, we were able to get to where we needed to be.

The process took three incredibly intense and focused months. The services rose to the challenge and came forward with proposals for both growth that they argued was necessary, and for cost reductions, efficiencies, and transformation that they thought was achievable to offset that growth and provide further savings.

We discussed all these proposals at service level in iterative sessions with Finance which involved the service's Finance Business Partner, the Head of Business Partnering, the relevant Assistant Directors, the Executive Director for that service and the S151 Officer. Proposals were challenged, debated, tested, and refined.

From there, we held sessions by Directorate to present the shortlisted proposals to the Chief Exec, where he brought a fresh perspective and further challenge before we held final sessions with the Leader, the Cabinet member for Finance and the relevant Cabinet members and even at that stage, challenges were made and changes agreed.

Contracts have been reviewed in more detail this year to reduce the likelihood of unforeseen increases in costs.

We made a commitment to the staff that we would only consider redundancies if absolutely required, and we have kept our word on that. While making any role redundant is always a difficult decision, there are remarkably few in this budget. They relate to activities that, in the current financial circumstances, had to be considered in the budget challenge sessions as lower priority than the demand led statutory services that we needed to provide additional funding for. As always, the council will try to redeploy affected staff to other vacancies.

Budgeting for debt servicing costs is difficult because more than half of our borrowing will reach maturity in the coming year, and not having been paid off, will need to be refinanced. This year we have improved, and continue to improve, our cashflow forecasting and the granularity of our calculations for interest costs.

We engaged an external consultant in December to review our assumptions and calculations for Council Tax and Business Rates. We reviewed CT internally and realised that our assumptions for tax base in the past had been overly optimistic, both in terms of growth and with an expected collection rate that was higher than the 98.5% target, which is consistent with most councils' expectations, given to our Revs and Bens team. This resulted in us creating a deficit each year, some of which could not be recouped. The external review allowed us to make some adjustments to the calculation of both these key elements of funding that reduced the expected level of Council Tax income, making it more accurate and realistic, but increased the amount of Business Rates income to offset that and give a benefit to our overall financial position.

The focus of budgeting in local government is very much the revenue budget. It's the subject most services engage with finance on, it's the area that is typically regularly reported on and it's the element of finance that most people are used to seeing and is most easily understood. The reality though is that the funding assumptions and areas like debt service account for millions of pounds of either income or expenditure and as such, were also given a high level of focus within the Finance team in the drafting of this budget.

The transformation programme is ambitious, and its delivery is one of the key risks in this year's budget. The belief that the projects are achievable comes from the knowledge that the services have proposed and agreed them, have planned their delivery, have been given the additional resource they requested to implement them through the flexible use of capital receipts and will be reporting their progress through a governance framework overseen by the executive leadership team and updated to members. The right ideas, the right resource, the right framework, and the right engagement.

No budget will ever be 100% accurate and can only be a well thought through estimate at a given point in time. In drafting this year's budget, we have been neither overly prudent nor overly optimistic. It has had the full and unfettered participation of all service areas and the feedback has very much been that they appreciated the openness and honesty of the very, very many sessions. This does not mean that everyone got what they wanted. In the context of needing to make such significant levels of savings we had to turn down some proposals while ensuring that everyone got what they "needed".

Each line item has been discussed with the relevant budget holders from each service to reach as realistic a forecast as we can make. The discussions were open and honest, and the context of each proposal understood. The approach has been sound and the level of participation high. The budget is as accurate as it is possible to make it in the current circumstances and will be monitored carefully through the coming financial year, with corrective action taken quickly as necessary.

I can confirm that the budget estimates, as presented, are both prudent and robust.

Adequacy of the Council's Reserves

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued guidance on local authority reserves and balances. It sets out three main purposes for which reserves are held:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary borrowing.
- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities, known as earmarked reserves.

The council's general reserves have been devastated by the adverse variances on the 2023/24 budget and we expect to close the year with less than £4m available, from an already low level of £10m at the end of 2022/23.

Earmarked reserves have been reviewed several times this year and any funding that was previously set aside but no longer required, due to the passing of time or a shift in priorities, has been released to offset the rising overspend. This means that earmarked reserves are very much depleted as well and no longer an available fallback.

I have been asked several times whether the amount of reserves we have is "sufficient", especially since they have dropped below the level that the previous S151 officer deemed "minimum".

My answer is that I believe it is a judgement call based on a number of factors:

Guidance from CIPFA and, common sense would indicate good practice, is to look not only at the amount of reserves held but at the expected rate of depletion. Last year's planned budget was unable to be achieved but we have taken steps to increase confidence in this year's plan and to resource the delivery of it. We will also carry on trying to find new ways to save money and generate income, all of which will reduce the likelihood of being required to fund shortfalls from reserves.

The budget for 2024/25 contains £3.6m of contingency. This can be considered as an addition to the general reserves and provides a buffer to absorb overspends before they reach reserves. If we achieve what we have set out to do and deliver the budget as planned, any amount left over in contingency will be able to be transferred to reserves at the end of the 2024/25 financial year. The same is true for each subsequent year in the MTFS where we have built in a similar level of contingency.

Future years of the MTFS have inflationary growth built into them but only a very small allowance for baseline growth. They do show, though, that if we hold steady to the plan and are able to reshape rather than grow, we should get to the point where we are able to start to return surpluses to general reserves and strengthen our financial resiliency.

Local Government operates in a very uncertain environment. Funding is generally notified one year at a time and even then, only a few months before the start of the financial year. With a general election on the horizon, it's difficult to anticipate what changes will be made in the future to the levels of funding given to councils. What can be said is that with so many councils now warning that they are unable to deliver balanced budgets and either filing S114 notices or warning they are on the verge of one, it seems unthinkable that any future government would risk reducing the money we receive.

In a recent statement CIPFA said, "CIPFA considers that local authorities should establish reserves and determine the level of those reserves based on the advice of their Chief Finance Officers. Authorities should make their own judgements on such matters taking into account all the relevant local circumstances. Such circumstances vary."

There are no hard and fast calculations for this. Many authorities will be using their reserves this year to fund gaps in their budget. Due to our low level of reserves that is not a luxury we have. Others will be attempting to hold to a balanced budget, but in the knowledge that if they fail, they will be rescued by their reserves. Again, that is not a luxury we have.

We need to deliver the budget as laid out and agreed. We need to carry on finding ways to generate more income and reduce expenditure. We need to carry on holding firm on any unnecessary expenditure and to monitor our progress closely. It is virtually inevitable that we will face unforeseen costs that are unavoidable and beyond our control. That is what the contingency budget is for, and we must guard against it being seen as available funding for anything else.

If we do all of those things and hold to the plan, the current level of reserves is adequate and will grow. We must have faith in our officers that they can and will deliver what they have said they will – but we must give them the tools, the resource, the support, and the space that they need to do that without asking that their attention to be diverted on to other things.

I can confirm that, based on the proposed budget and the forecast MTFS, the level of reserves is currently adequate – but only if we focus our attention on the delivery of the transformation as planned and continue to avoid any, and all, unnecessary spend.

Risk

It is clear from all of the above that there is a high level of risk in RBWM's finances. That will come as a surprise to no one. We stated publicly in September 2023 that we were at risk of filing a S114 notice, and that risk has not gone away. Each step we take in this process is vital and if we falter, we have very little financial resilience to cushion a misstep.

The key risks, and importantly, mitigations, are listed below.

- **Contingency** - Funding in the 2023/24 budget has proved to be inadequate in several key areas, and the overspend that has been generated has not only decimated our general reserves but also our earmarked reserves. This is discussed at length above.

  We have built a level of contingency into the 2024/25 budget. We could debate the adequacy of that, but the reality is, no more is available. At £3.5 million it does provide some level of protection and we have added £5.2m of growth to Adult services' budget and £2.6m to Children's social care, two areas of high pressure in this year's overspend. All of this should provide some protection to our reserves but we know from experience that small changes in those services can have very significant financial impacts.

- **Change** - The 2024/25 budget is predicated on an ambitious transformation programme and without it, will not be achieved, resulting in overspends we cannot afford.

  Some of the savings targets last year were achieved. These tended to be the things that had been initiated by the services and adequately resourced. Proposals that failed to be implemented were typically areas where we knew there was a problem (for example, aged debt) and therefore the scope to make improvements was there, but there was no plan, no distinct owner, and no staffing capacity to make the change. This year, every proposal has come from the services, we are drawing on the flexible use of capital receipts to resource them and all the projects will be managed in an overarching programme reporting into the Executive Leadership Team as project sponsors.

  In the example given above of debt, this year we have funded, as part of the transformation programme, a complete review of our credit control processes with the creation of templates and training for staff to improve consistency of approach. In our revenue budget we have allocated funding for additional credit controllers to implement the new processes and operationally recover the debt.

- **Control** - The budget, despite our best efforts in building it and allocations of funding could prove to be inadequate for reasons beyond our control.

  This is an acknowledged risk. We know that we have prioritised millions of pounds of additional funding for our social care budgets, but we also know that placements within them are expensive, a statutory duty and demand-led. That is to say that just one additional placement in those services can add hundreds of thousands of pounds to our budget; we cannot predict or control when those needs arise and we have an obligation to meet them, whether we can afford it or not. We know that placements have been increasing month on month and there is a risk that a gap is already emerging between our rebased budget and the rising reality. Work is being carried out on this currently to quantify the risk.

Aside from the additional funding to make those baseline budgets adequately reflect the true cost of the services, we are also investing in early interventions in these areas. These aim to provide a better outcome for the adult or child by enabling and supporting them to stay with their families and, where safe and appropriate, out of residential care. We are investing in a better software based management system for both Adult and Children's services, allowing more timely and efficient invoicing and the consistency and transparency of information.

Financial reporting has already increased frequency to monthly reporting but because of way the meeting cycle works, the reports for any given month were not considered by Cabinet until roughly 6 or 7 weeks after the end of the period they related to. The Finance team have streamlined their processes and Cabinet are adjusting their meeting dates so that financial analysis on the month's performance, and recommendations for remedial action will be presented to the Executive Leadership Team, having already been reviewed by service areas and Assistant Directors, within two weeks of the month end. After which it will be briefed immediately to Cabinet and published and discussed transparently at the end of the month. This allows for early detection and intervention on any issues arising and gives us the best chance of reducing the financial impacts of unanticipated changes.

- **Complacency** - There is a perception that agreeing a balanced budget means that our problems are "solved" and that we can now start spending money again, rolling back on savings that were proposed and agreed and generally eroding the hard won ground we've gained.

  We are very fortunate to have an excellent Officer team, an exceptional Exec leadership team and an intelligent and supportive Cabinet, however, members will often find themselves dealing with requests that, while nice to deliver, are outside of the current financial capacity of the council.

  RBWM, in conjunction with its members and residents, is close to agreeing a revised Council plan with an associated action plan. For all the reasons stated in this report and elsewhere in the budget papers, we must restrict our activities to addressing that plan which has been prioritised to align with the needs of the residents, the Cabinet's ambitions for the Borough and the financial capacity of the council. Additional projects are unlikely to be approved, but the more insidious cost of investigating these options ahead of their refusal is the consumption of officer time. Delivering the transformation programme as set out in the budget and aligned to the emerging Council priorities, with already stretched officer resource, is challenging but achievable. Every time one of those officers is asked to investigate options on something that isn't part of their core deliverables, isn't part of the transformation programme and isn't part of our work to improve our financial stability, jeopardises all three of those – and we are already seeing those requests begin.

  The Spending Control Panel, which meets weekly, continues to provide oversight on discretional spend, encouraging and reinforcing a change in approach to nonessential spend, and providing backup to officers to push back on pressure to deviate from budget allocations.

- **Capacity** - The final significant risk is one of capacity and capability. In all areas of RBWM, resource has been reduced to very lean levels. This is no less true in the Finance team which is roughly half the size of some of our near neighbours. When a team is short of resource, focus can shift over time to the immediate tasks and away from controls and reconciliations.

  The general backlog of external audits in the public sector has also facilitated this. The last time that balance sheet reconciliations were requested – and therefore prioritised – was for the 2020/21 audit, which is still, at time of writing, virtually complete but yet to be signed. We have recognised the backlog of work and brought in additional interim resource to support the completion of it. We have a programme of work scheduled over the coming year to review and improve processes, automating work where possible, as part of a coming Finance system upgrade.

  Part of the remit of our new resource is to help us roll out training across the team, increasing the overall level of skill and understanding and helping to eliminate single points of failure. The imminent departure of several members of the team also allows us to review and amend the structure to ensure that all staff are supported and mentored and understand the impact and importance of their role and actions as part of the bigger picture.

Summary

RBWM's financial situation is nothing short of frustrating. The council took legacy decisions to cut or freeze council tax six years in a row. This is often cited as a cause of our current financial situation but the true extent of it can't be understated.

Over the last twelve years our average band D council tax increased from £1,203 to £1,604, compared with the average of our neighbours which rose from £1,474 to £2,108. We spend £322.47 less than the average of our neighbours and to match them, we'd need to increase our baseline budget by 26%

Council Tax increases, even at the maximum amount permitted, are a percentage increase on the previous year, so having fallen behind, we can literally never catch up. When government cites a percentage increase in spending power for councils, that's a much bigger increase in absolute terms for other councils than for us.

As the funding was reduced and the revenue budget cut to align with it, staff numbers were reduced and wages cut, and a huge amount of unfunded expenditure was then charged to capital and paid for by borrowing. We are fast approaching £200m of debt which is costing an ever increasing amount to service. We are working hard to avoid increasing it but have no way to reduce it, apart from through the disposal of assets, and even then, not enough to remove it.

We are working with only three quarters of the available funding of our neighbours and significant amounts of legacy debt. Where borrowing in the past has been used to fund revenue generating assets, the additional income has been immediately absorbed into the depleted revenue budget and the debt remains indefinitely.

In short, the core of our financial distress is caused by legacy decisions that we cannot undo but must live with the consequences of. We provide excellent services, at a lower unit cost than most authorities. We operate with a small but dedicated workforce, who are paid less than their peers in neighbouring councils thanks to a decision to remove them from national pay bargaining - a decision that, certainly in the short term, we do not have sufficient funding to redress, however much we would like to.

The current Cabinet do not have the luxury of planning crowd pleasing spending sprees; instead they must deliver the unpalatable news of efficiencies and spending controls as they stand shoulder to shoulder with the officer team to find ways to save the Council.

The incredibly talented and dedicated staff at RBWM, supported by our members, have risen to the challenge of finding ways to close the budget gap and we must ask them to continue to go above and beyond to deliver it now.

We can survive, but it is difficult and will continue to be so.

Elizabeth Griffiths ACMA 16th Feb 2024