

Report of the Chief Financial Officer on the robustness of the 2020/21 Budget Estimates and the adequacy of reserves.

LOCAL GOVERNMENT ACT 2003 – SECTION 25

Introduction

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the Council's Chief Finance Officer, currently the Executive Director of Resources, on the robustness of estimates and the adequacy of the Council's reserves.

This report has been prepared in accordance with those statutory requirements and covers the following two specific areas:

- Robustness of Budget estimates
- Adequacy of Reserves

Both are important in their own right, the first gives consideration to any risks contained with the estimates of the budget being approved and the reserves element ensures consideration is being given to the longer-term financial health of the Council.

Robustness of Budget Estimates

This section will deal with two specific areas:

- The process by which the estimates were produced (to provide assurance to members)
- Potential risks to these estimates and the underlying assumptions

Process

The estimates contained within the budget have been through a rigorous process which includes:

- Identification of assumptions (on macros issues) using comparison with peer authorities and using external experts to provide advice.
- Estimates for demand for council services have been built up using local service knowledge within the Council.
- The estimates have been produced and owned by the directorates that will be managing the budgets.
- The budget package has been reviewed and signed off by the Council's leadership team.

In developing these estimates careful consideration has been given to:

- The uncertainty over future funding for Local Government.
- The increasing demand for council services.
- The level of inflation at present and going forward – recognising the recent uncertainty.
- The national picture in terms of 'financial viability' of some councils.
- The links between the revenue budget and capital programme in terms of the size of capital programme the Council can afford.

Inevitably given the complexity of the budget for a Council and the uncertainty around demand and funding there will be a number of potential risks to the position laid out in this budget report. These are set out in the next section.

Risks/variances

This section is concerned with the scale of financial risks faced by the Council as a result of the estimates and assumptions which underpin the budget. The basis of these estimates, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the Council, and any changes in national policies. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks and capitalise on financial opportunities arising from changes in the forecasts.

The table below demonstrates the scale of just a small variance in the assumptions made, showing the potential impact of both a positive and negative movement of 1% across the main areas within the medium-term financial strategy (the backdrop against which this budget is set):

Sensitivity Analysis	Potential Full Year impact of 1% movement £m
Council Tax (level, taxbase and collection rates)	+/- £1.183
Funding Grants	+/- £0.374
Pay Award	+/- £0.740
Real Living Wage	+/- £0.588
Adults Community Care: inflation and demand growth	+/- £1.296
Adults Transition Budget: demand growth	+/- £0.188
Children Looked After Budget: inflation and demand growth	+/- £0.897
Treasury & Capital Financing Costs	+/- £1.028

A number of specific potential risks and opportunities remain within the budget as follows:

- **Government Funding** – there is uncertainty for future years over the level of government funding with only a single year funding settlement in place. The government have committed to a multi-year settlement from 2026/27 along with funding reform which would aim to realign funding in line with the recognised need for services whilst giving due consideration to a council's ability to raise revenue via council tax, business rates and fees and charges. The overall quantum of funding and method of distribution in the future multi-year settlement is unknown and national economic conditions add to the uncertainty in this area.
- **Inflation** – Assumptions have been made for inflation based on latest forecasts. The trajectory is downward since last year's budget was set. This is an area the Council will need to monitor carefully particularly in its relationship with contractors and their asks for inflationary increases.
- **Pay** – The Council has assumed a 3% increase in pay budgets for 2025/26 given the lower inflation figures. The government have indicated a public sector pay award figure of 2.8% although there is the possibility that the pay award could be more than this or that it is awarded on a sliding scale that averages more than 3% across the full pay scales.
- **Service Demand** – demand for council services has been unpredictable over recent years especially post COVID and this is an area the Council will continue to constantly monitor.
- **Interest rates** – The budget currently assumes a 5.25% interest rate for the majority of 2025/26 with small reductions forecast for the second half of the financial year.
- **Delivery of the savings programme** – the 3-year budget set out for members includes total savings to be delivered of c£17m. This is a significant ask and will require continuing regular monitoring and prioritisation from the officer leadership of the Council. Any non or delayed delivery of agreed savings will worsen the current forecast funding gap.

Mitigations in place

The Council has a number of mitigations in place for these risks:

- Governance has been strengthened aligned to the council's improvement plan. A strategic finance board has been established made up of senior officers from all directorates and chaired by the Director of Finance, which has responsibility for monitoring the in-year revenue budget, including the delivery of agreed savings, and updating and developing the medium-term financial strategy. The board will also drive the production of budget proposals over the spring and summer to address the residual structural funding gap to enable a balanced budget to be set without recourse to reserves over the period covered by the current medium-term strategy. This will involve undertaking a zero-based budget review of all services across the council.

- In-year financial performance is monitored every month and reported to Cabinet on a quarterly basis. This involves identifying mitigations to address forecast overspends and to factor any ongoing risks and opportunities into the medium-term financial strategy.
- A review of strategic commissioning, procurement and contract management arrangements and the future procurement pipeline is being undertaken to ensure value for money and outcomes are maximised through the council's third party contracts.
- The Council has a budget stabilisation reserve which, at present, 'smooths' the annual financial gap as the Council works towards the delivery of a balanced and sustainable budget going forward.

Future developments

A number of associated strategies are managed within the Council which may impact on the Council's overall budget position in the medium term. These will be included as specific sections in future budget reports.

High needs block (SEND) – there is a significant deficit building up on this block which based on current trends will only increase. This is a national position and one which is being actively monitored and reviewed. At present there is a statutory override which means the Council does not have to fund the deficit. There is no national solution to this challenge at present and the override expires in 2026/27. As part of its financial planning the Council holds a DSG reserve which covers these costs. However, going forward as the costs increase each year and if the statutory override is removed this will become a significant financial challenge to the Council.

In addition, in response to the pressures Bury was one of the first councils to enter into a formal Safety Valve agreement on 19 March 2021. This original agreement aimed to eradicate the DSG deficit by the end of the 2024-25. The council has undertaken extensive work in repairing and rebuilding Special Educational Needs and Disabilities (SEND) services within the borough over the last three years as part of the Safety Valve programme which has included rebuilding the Education Health and Care Plan (EHCP) team, reworking the EHCP process and launching a graduated approach.

The work undertaken to date has had an impact and has started to reduce the DSG deficit position, however this has been against a backdrop of unprecedented demand. This increase in demand has resulted in a necessary change in the deficit reduction profile with the council working with the DfE to devise a revised DSG Management Plan which proposes to eradicate the deficit by the end of the 2028-29 financial year. This is a challenging target given that the deficit is currently forecast to increase by £2.2m in 2025-26 and will remain under close scrutiny and review.

At this moment the pressures are not reflected in the Council's budget due to the current statutory override.

Treasury Management – The Council has a historically successful treasury management strategy. Given the changes to the macro-economic conditions over recent years this strategy will need to be continually monitored to minimise the cost of borrowing and maximise returns on cash balances whilst minimising risk and will be included in future years budget reports.

Major Projects – The Council successfully supports a number of major projects to promote regeneration and economic growth across the borough.

Reserves Strategy

It is important the Council maintains and monitors an appropriate level of reserves in these challenging times and this needs to be a careful consideration between ensuring sufficient reserves exist for a sustainable financial future against not accumulating reserves at the expense of needing to make decisions in the short term that could be operationally damaging to the Council's ability to provide the services it needs to its residents, service users and other stakeholders.

The Council holds reserves for a number of reasons:

- To enable the Council to deal with unexpected events such as flooding or the destruction of a major asset through fire,
- to enable the Council to manage variations in the demand for or cost of services which cause in year budget pressures, and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- To enable the Council to deal with unexpected events such as flooding or the destruction of a major asset through fire,
- to enable the Council to manage variations in the demand for or cost of services which cause in year budget pressures, and
- to fund specific
- the level of risk and opportunity evident within the budget as set out above,
- a judgement on the effectiveness of budgetary control within the organisation, and
- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

The Council is forecast to hold c.£78m in reserves in total at 31 March 2025. An element of this (£19m) is earmarked for specific purposes.

In relation to the Council's general reserve (General Fund), the forecast level at 31 March 2025 is £10m. This represents 4.2% of the current net budget. Given the current uncertainty facing the Council in isolation this could be seen as a low level of reserve to hold. However, the Council has a budget stabilisation reserve which acts as a 'safety net' to support the Council developing a sustainable budget over the coming years. The forecast at 31 March 2025 is £27m representing 11.3% of the net budget and is sufficient to meet the forecast funding gap within the current medium-term financial strategy covering 2025/26 to 2027/28. Over the next few years, it will be important to give consideration to building the general reserve up to a sustainable level as part of the budget plans and reflecting future changes to the level of other reserves.

The CIPFA Financial Resilience Index is a comparative analytical tool that councils, and more particularly Chief Finance Officers, can use to compare the financial position of their respective council to others across various different measures, and help ensure good financial management. This is a tool that will be continuously used to measure the county council's position and is part of the responsibility of the strategic finance board to review and advise members accordingly.

Declaration by Chief Financial Officer

Overall, I can give assurance that the estimates within the budget proposals are sufficiently robust. There are inevitably challenges to producing these over 3 years, but the Council has plans in place to look for further efficiencies and savings to mitigate against any variations to these. The report has outlined the setting up a £1m fund via capital receipt flexibilities to reflect that the council is likely to need to bring in additional capacity to drive forward service transformation and the identification and delivery of future budget proposals.

There are a number of areas of uncertainty going forward that the Council needs to keep a watchful eye on including most significantly Children's and Adults Social Care demand, SEND / High Needs Block and homelessness services and monitoring is in place to oversee these.

Sufficient governance is in place within the Council through senior officers and members to provide oversight of delivery of the plans contained within this budget.

And finally, the reserves level of the Council are sufficient to manage any risks associated with the proposed budget.

N Kissock
Section 151 Officer