BCP Council

8 February 2023

Section 25 Report of the Chief Finance Officer
(Prepared in consultation with the Chief Executive)

Background

1. A local authority must decide the level of general reserves it wishes to maintain before it can decide the level of Council Tax it sets. The purpose of general reserves is to manage the risk to the council's financial standing from the impact of excesses to the budget provision, from unknown and unforeseen events and from the materialisation of known risks.

2. In setting the budget the Director of Finance, as the Councils section 151 (s151) officer, is required under section 25 of the Local Government Act 2003 to report on **the robustness of the budget** and the **adequacy of reserves** supporting the budget. The requirement on the s151 officer is to ensure that the **annual budget recommended to council is balanced** (i.e., expenditure matches income), is robust and therefore deliverable and has an adequate level of reserves. The s151 officer is required to ensure that the council's approved budget addresses these three issues.

3. In line with recommended good practice this advice note has been prepared in consultation with the Chief Executive (CEX).

4. Ultimately, Council will determine the level of reserves and balances formally in setting the annual budget. The advice of the Chief Finance Officer must be formally recorded.

Guidelines

5. There is no set formula for deciding what level of reserves is adequate. Councils are free to determine the reserves they hold. Councillors are responsible for ensuring that the reserves are appropriate to local circumstances and are accountable to taxpayers for the decisions they make.

6. It should be stressed that there is not a theoretically "correct" level of reserves because the issues that affect an authority's need for reserves will vary over time and between authorities. Reserves should not be seen in a short-term context. They should also be placed in the context of cost-of-living inflationary pressures and the high level of uncertainty as this time. Potential cost pressures, demand pressures, service delivery improvement aspirations and the need to deliver significant levels of savings and efficiencies in balancing the 2023/24 budget will require the council's finances to be underpinned by a robust level of reserves.

7. It is however legitimate for the council to call on reserves to mitigate short term pressures, smooth out the impact of extraordinary one-off demands and/or otherwise meet the costs of unforeseen events.

8. It should be emphasised that councils can and do experience significant financial difficulties as recent high-profile cases such as those at Northamptonshire County Council, Croydon Council, Slough Borough Council, Nottingham City Council and Thurrock Council demonstrate.

2022/23 Budget

9. Before considering the three constituent elements of this advice note perhaps the place to start is a reflection on the 2022/23 budget, approved by Council in February 2022, including any financial matters that have arisen in the financial year to date.

10. In providing the statutory s25 report to accompany the 2022/23 budget the s151 Officer suggested that councillors should give serious consideration as to whether increasing Council

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Tax by the full 5.99% permissible, not investing further in services at that time, and only committing to further borrowing if it is self-financing, would better preserve statutory services into the future. Additionally, I highlighted that any proposals to use complex capital transaction as a mechanism for balancing the 2022/23 budget needed to be treated with a high degree of caution. The potential alternative approach, which amounted to a plan B, would have generated £4.4m in extra council tax revenue on an ongoing basis.

<u>2022/23 Budget – In year developments</u>

11. Through detailed public reports to the Cabinet in June, twice in September, October, November and December 2022, the council has reflected on a material change to the risk profile of its 2022/23 budget. Salient factors associated with this position can be summarised as.

- Cost of living inflationary pressures (with the consumer price index currently at 10.1%), estimated previously to be around £25m in 22/23 and £30m for 2023/24. These pressures are similar to those consistently being reported by other local authorities nationally.
- High levels of financial planning uncertainty due to the constant changes and variations to the costs of goods, materials and services required to deliver council operations.
- Amendment of government guidance which has left the council with a significant funding shortfall in respect of its approved transformation programme. This programme was to be funded in the 2022/23 original budget via the Flexible Use of Capital Receipts utilising a receipt generated from creating a Special Purpose Vehicle that enabled the commercialisation of the council's beach hut assets.
- An application to the government under its Exceptional Finance Support programme to be allowed to finance its transformation programme via borrowing (referred to as a capitalisation direction) and to spread the cost over a 20-year period.
- A "minded to" offer from the government of the ability to spread the £20m 2022/23 transformation cost, subject to an external finance and governance review, on the condition that it balances the 2023/24 budget by the end of September 2022 and in the expectation of future asset sales to avoid the need for a further capitalisation direction in both 2023/24 and 2024/25.
- Implementation of a revised financial strategy for 2023/24 which focuses on traditional local government management processes and revenue sources. As part of this strategy an in-year expenditure control was implemented designed to deliver savings and efficiencies in 2022/23 which can be used to support the 2023/24 budget.
- Consideration of the extent to which a capitalisation direction can be avoided in 2022/23 by bringing forward the disposal of non-strategic assets by the 31 March 2023.

<u>Key Risks Associated with the 2023/24 Budget</u>

12. Having reflected on how the current financial year has developed the next stage is to consider the key risks pertinent to the current position of the council. In doing so I am reminded that Local Authorities should not put public money or services at risk.

Uncertainty

13. The only certainty at this moment in time is uncertainty. There are currently high levels of financial planning unpredictability caused by the cost-of-living crisis and constant changes and variations to the costs of goods, materials and services required to deliver council operations.

2022/23 Forecast Outturn

14. A key element of the Council's Financial Strategy is the aim to deliver a surplus in 2022/23 which can be used to create resources (via an earmarked reserve) which then can be drawn down in support of the 2023/24 budget. The surplus being forecast under this mechanism is currently £10.1m. It should however be emphasised that there is a significant risk associated with this figure as it is based on trend analysis and professional judgement centred on activity from 75% of the financial year. Predications and estimates can and will change over the remaining 25% of the financial year. Assurance can be taken previous year's performance, from 2022/23 in year monthly reporting and the fact that Cabinet previously decided not to undertake any new financial commitments until such time as a balanced budget for 2023/24 has actually been delivered. It is reasonable also to note that in every year of its existence to date this Council has delivered a surplus greater than projected at this time in the cycle.

15. The intent has always been to lift this expenditure control once council agrees the budget for 2023/24. That said services will need to be mindful of the underspend/savings commitments made by way of contributions towards the 2022/23 forecast outturn therefore spend arrangements are not expected to return to standard operating arrangements until the new 2023/24 financial year. Even then it is suggested that a Corporate Management Team and Portfolio Holder process is put in place to consider if stopped activity is indeed required rather than it being automatically restarted. Continuation of such a process for third-party contract expenditure would also help the delivery of the transformation 3rd party spend savings through more robust procurement and contract management arrangements.

Accumulating Deficit on the Dedicated Schools Grant (DSG)

16. Any private sector organisation which has negative reserves on its balance sheet, is likely to fail the "going concern" accounting concept. In local government a material uncertainty related to "going concern" is unlikely to exist as the financial reporting framework assumes the council's services, at least its statutory services, will continue to be delivered in all scenarios. Therefore, in local government, the most likely scenario is the councils Section 151 Officer would have to contact DLUHC to advise them of their financial concerns and possibly issue what is referred to as a s114 report. A section 114 notice would result in an immediate and severe curtailing of activity to the provision of non-statutory services. Even statutory services may be subject to a reduction in frequency or quality.

17. Due to the accumulating deficit on our Dedicated Schools Grant, BCP Council is projected to have negative reserves by the 31 March 2024. This means that all things being equal the s151 Officer would be required to issue a s114 report for the 2023/24 financial year.

18. The deficit predominately relates to the expenditure on the High Needs block being greater than the funding available ever since the introduction of Education, Health, and Care Plans (EHCPs) under the Children's and Families Act 2014.

19. However, to mitigate this position, which is a problem nationally, the government issued a DSG statutory override by way of a statutory instrument (SI) which became law at the end of November 2020. This SI means the council cannot contribute to the deficit, cannot hold a reserve to act as a counterweight and has been required to move the deficit to an unusable reserve where it will sit as though it did not exist.

    The statutory instrument reads as follows.

    Where a local authority has a deficit in respect of its school's budget for a financial year beginning on 1st April 2020, 1st April 2021 or 1st April 2022, the authority—

    (a) must not charge to a revenue account an amount in respect of that deficit; and

    (b) must charge the amount of the deficit to an account established, charged, and used solely for the purpose of recognising deficits in respect of its school's budget.

20. On 12 December 2022 as part of a local government finance policy statement government announced the extension of the DSG statutory override for a one-off period of three years up to 31 March 2026.

21. This presents a clear, and dangerous position for the council and its future sustainability. At the end of 2023/24, the deficit on the DSG is predicted to be £63.7m. At the end of the extension period BCP Council is currently forecast to have an accumulated deficit of between **£158m** and **£160m.** The Council is part of the Delivering Better Value in SEND programme which should help the council gain access to resources to support any necessary reforms of its SEND service. This transformation programme does not however provide any resources to address the accumulating deficits. Ultimately either the government, the council, schools, or a combination thereof will need to finance this deficit. Therefore, as a sector, local government needs to continue to work with government to find a long-term solution. Deferring a solution until 2026/27, with none of the stakeholders actually making a provision to offset it could be catastrophic. A deficit of £160m would be approximately 60% of the entire current net budget of the council.

Delivery of £32.9m of List One and £2.2m of List Two savings

22. There is a significant inherent risk associated with delivering £35.1m in savings which is almost equivalent to the entire level of assumed savings over the entire period of the last 3 years. This includes assumptions of significant income generation and reduced service-based expenditure. Evidence is that some of those savings, such as the £5m savings assumed in Children's services in 2022/23, were not subsequently be delivered. Corporate directors and service directors have expressed confidence in being able to deliver each of the savings' proposals, but there is a collective risk in managing and delivering this volume of savings in a short space of time.

External Intervention

23. The External Auditor reported to the Audit & Governance Committee on 20 October 2022 that they had qualified their latest Value for Money judgement on the council due to significant weaknesses in its arrangements for financial sustainability. From the debate it was made clear that the External Auditor did not share the optimism around the council's ability to deliver a balanced budget for 2023/24 based on robust, evidenced based assumptions. They continue to articulate that they will continue to oversee progress carefully and will not hesitate to act if they deem it necessary to do so.

24. Additionally, following an Inadequate Ofsted judgement in February 2022 of the council's Children's Services the Department for Education (DfE) appointed an Improvement Adviser as a form of intervention. Whereas this intervention does not technically involve a commissioner role the DfE steer is clear throughout that if progress is not effective in the short term the question of a structural intervention, such as a children's trust, may be brought forward. The perceived wisdom is that an outcome of a children's trust would be an expensive one for the council.

Use of One-Off resources to balance the 2023/24 Budget

25. The inherent risk of using one off resources to support the proposed budget for 2023/24 must be acknowledged especially when significant levels of reserves have been used in support of the previous two years.

- £30m of one-off resources were used to support the 2021/22 budget
- £36.2m of one-off resources were used to support the 2022/23 original budget.
- £29.6m of one-off resources are being used to support the 2023/24 proposed budget.

It should also be acknowledged that a significant proportion of these reserves were created from refinancing of the transformation and capital programmes, a review of inherited resources, and the deliberate cost-of-living mitigation actions taken in-year to support the 2023/24 budget. Such reserves and resources though can only be used once therefore note should be taken that significant levels of resources have been used to support the last three budgets of the council and their use in some instances reduces the future financial flexibility and resilience of the council. It should be noted that the highly positive outturn for 21/22 and the ability of the Council to create a reserve in year of £10.1m whilst suffering in the region of £25m of cost-of-living pressure shows how resilient the council can be in terms of managing cost and in year pressures.

Council decision to increase Debt Threshold to £1.334bn

26. Council in November 2022 agreed to increase the Council's debt threshold from £855m to £1.334bn. On a Net Revenue Expenditure (NRE) basis this will move the council's threshold from the mid-point range compared to upper tier authorities including metropolitan boroughs to the top of the 3rd quarter. There are two main drivers for extending the councils debt threshold.

1) To enable service-based capital expenditure to be financed from debt with the cost spread over the time-period that will benefit from the expenditure.
2) To support the big plan objective including the delivery of regeneration and housing business cases which will provide an ongoing resource base for the authority, as a minimum, once the borrowing is repaid.

As at the 31 March 2022 the council's total debt position was £477m with commitments made via the capital programme to take the debt to the £855m. Subsequently revisions to the financial strategy meant a number of sizeable schemes were removed from that commitment, particularly those associated with Bournemouth Development Company proposals. The currently revised forecast, including commitments made up to the end of December 2022, is projecting a debt position of £704m as at 1 April 2027.

If BCP council had had debt of £1.334bn at 31 March 2022 it would have been the fifth most indebted unitary council. Of the four authorities that would have been above us, two have now issued s114 notices. Therefore, it is critical that council is conscious as to the potential impact if things go wrong and robustly scrutinise any proposals to take on additional debt rigorously to ensure they are affordable, prudent, and sustainable. Even with the most robust of business cases, with the level of variables and assumptions under consideration council should recognise the additional financial liability it is taking on and the potential exposure being placed on local resources. Debt repayment is the first call on any resources generated by the council, even before the provision of statutory services.

Recognising this position Council agreed not to support any further debt being taken that would require the general fund budget of the council to finance the revenue implications of taking on that additional debt. However, this criterion has already be breached when council agreed to take on the debt to fund Royal Arcade development as part of the Town's Fund, although in this example there was justification, linked to the principles of the capital investment programme, which was the decision was subject to achieving a sizeable level of inward investment from the Heritage Lottery Fund and government.

Capitalisation Direction.

27. Not presenting a full plan to balance the 2023/24 budget to DLUHC would have jeopardised the Councils ability to achieve a £20m capitalisation direction in 2022/23. This would have meant either additional in-year capital receipts needing to be generated (which the Council are continuing to test the feasibility of achieving) or utilising the resources currently supporting the balancing of the 2023/24 budget. The second of these would impede the ability to set a legal, balanced budget for 2023/24. Associated with this would have been at least the possibility of direct government intervention in the council.

The "minded to" £20m capitalisation direction for 2022/23 was subject to an external finance and governance review. The latest is that DLUHC intend to commission these reviews shortly as set out in the letter from Lee Rowley dated 25 January 2023 (the work having been slightly delayed due to the reshuffle of Ministers).

Councillors should note that the proposed budget, with a maximum Council Tax increase is in line with the budget that was presented to DLUHC in October 2022 and is in line with commitments given by the Chief Executive to DLUHC subsequently, to confirm the availability of the capitalisation direction.

BCP FuturePlaces Ltd

28. The Council have committed a £8m working capital loan to BCP FuturePlaces Ltd a wholly owned teckal company established to drive the Councils regeneration ambitions. They recover expenditure incurred principally by being paid for successful business cases approved by the Council. The council is exposed based on two fronts.

    1. *any amounts drawn down from the loan which ultimately prove to be unrecoverable (currently just over £2m).*
    2. *any payments to BCP FuturePlaces for Outline Business Cases which the council charges against capital and which then must be written off as it decides not to progress with the Full Business Case.*

    Councillors should be aware of the BCP FuturePlaces Ltd operating model and the risks outlined above, however a number of outline business cases are now coming through the Council process.

Social Care Reforms

29. These reforms will place significant new responsibilities on local authorities as well as introducing a cap on care costs. There is a significant risk that the Government grant will be insufficient to cover the full cost associated with these reforms and the staffing needed to enable their delivery. As part of the 2022 Autumn Statement the Chancellor announced these reforms have been delayed from October 2023 to October 2025.

Robustness of the 2023/24 budget

Employee costs: 2023/24 pay award

30. The budget as presented makes provision for the £1,925 on every spinal column point in 2022/23 followed by a 4.25% pay award for 2023/24. This is based on a benchmarking exercise undertaken by the Chief Financial Officer with Unitary Treasurers to ascertain the assumption being made by the sector. The council would need to set aside approximately £1.7m for every additional 1% pay award.

Employee costs: Saving from delay in replacing staff

31. Consideration of several proposals designed to reduce the staff cost base of the authority either temporarily or permanently is a fundamental element of the revised financial strategy put in place for 2023/24. In response, the proposed 2023/24 budget increases the percentage of the employee establishment not budgeted from 2% to 5%. As a principle this reflects that staff turnover would always create an underspend in a budget based on 100% of establishment if a new member of staff does not start the day the departing staff members leaves, and if there is any differential in rates of pay. The increase to 5% is equivalent to a £2m saving and reflects that staff savings above a 2% rate were a factor in the additional underspend that emerged in the final quarter of the 2021/22 financial year.

    The risk is due to this additional underspend may have been caused by factors which are outside of the normal operating arrangements and therefore budget holders will need to manage turnover to deliver this saving which in turn will impact standards of service delivery and performance.

Children's Services – Employee costs uplift funded from Agency Staff saving

32. Cabinet on the 26 October 2022 agreed to implement a Children's Services market forces pay review for children's social work posts by offering a contractual supplement until the

implementation of pay and reward. The assumption is that the significant additional cost of this proposal is generally offset by a reduction in agency posts of 41 full time equivalents, spread over 3 years, and via saving the premium paid to agency workers. However, there is a clear and significant risk that the reduction in agency costs will not be achieved whereas the increase in base pay is now certain.

Children's Services – Improvement Expenditure

33. The budget as proposed allows extra investment in Children's services of £14.6m. However much of this relates to a reversal of previous savings not achieved alongside staffing, demand, and inflationary cost pressures within the service. No specific resources have been set aside to support the council's improvement journey. The expectation is that business cases put forward under the Children's Services specific transformation programmes will link to specific savings plans and incidentally assist the services improvement journey.

Transformation Investment Programme: Expenditure

34. The £68m transformation investment programme approved as part of the 2022/23 original budget included the intention to charge £6.7m per annum of internal base revenue budget staff costs to the programme which would then be financed by the flexible use of capital receipts.

Recognising the requirement to provide a robust evidence base to the external auditor for any staff costs recharged to the programme the recharge has been reduced by £3.5m to £3.2m in each of the three years 2022/23 to 2024/25. The lower figure is based on in-year monitoring and constant ongoing review will be required to consider the appropriate level of any recharge as the programme goes through its various phases.

Transformation Investment Programme: £6.5m in unitemised savings in 2023/24

35. As at the date of this report the Council has delivered £7.1m (82%) of the £8.7m annual transformation savings target for 2022/23 with £1.6m remaining to be delivered. The proposed budget for 2023/24 assumes that the shortfall against this will be delivered in the up-and-coming financial year. However, at this stage only £0.81m has been identified which means the budget includes £0.79m in unitemised savings which are not yet identified against an individual service area for delivery.

In addition, the 2023/24 budget, assumes an additional £10m of annual transformation savings associated with a third party spend workstream. Of this total £0.96m has been itemised related to reductions in third party spend associated with the List One and List Two savings items. In addition, the procurement and commission transformation workstream has indicated £3.34m in potential savings. This leaves a further £5.7m which are not yet identified against an individual service area for delivery.

Therefore overall, there is currently £6.5m (£0.79m+£5.7m) in unitemised transformation savings being included in the 2023/24 budget which will be challenging to see deliverable based on the current activity of the council, but it has been made expressly clear to this Council including CMB and Cabinet that it is essential that these savings be achieved in year to support the robustness of the MTFP. It is probably worth emphasising that to score against this unitemised savings target and savings would need to be.

- Revenue not Capital related
- General Fund not Housing Revenue Account related
- Budgeted not unbudgeted expenditure.

The main potential mitigations against this £6.5m unitemised savings item is proposed by way of a recommendation of the report which draws on the learning from the 2022/3 expenditure control, around strengthening commissioning, procurement, and contract management arrangements. Failing that the council would have to fall back on its £2.2m base revenue contingency in partial mitigation.

Adults & Children's Services: £26.1m in unidentified savings between 2024 & 2027

36. Since the 2022/23 budget the MTFP has included assumed and unidentified savings associated with specific service transformation in both Children's Services and Adult Social Care. The premise is that the inclusion of a £9.92m Children's Services service specific transformation investment programme, and a £6m similar programme in Adults Social Care will deliver additional savings to those already part of the main transformation programme. This £26.1m savings target was roughly based by applying a 2.99% restriction on future years spending linked to the 2021/22 budget and from 2024/25 converting that this into an absolute value.

Clearly due to the current pressures on the council, especially Children's Services, the deliverability of these savings needs to be treated with a high degree of caution.

Removal of these savings from the MTFP has a material impact on the assessment of the council's financial sustainability.

Figure 1: 2023/24 Budget report MTFP Position of the Council.

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Annual – Net Funding Gap	(0.0)	14.7	(2.8)	0.2	12.0
Cumulative MTFP – Net Funding Gap	(0.0)	14.6	11.9	12.0	

Figure 2: Revised MTFP position Unidentified Adults & Children's Services Savings removed

	23/24 £m	24/25 £m	25/26 £m	26/27 £m	Total £m
Annual – Net Funding Gap	(0.0)	20.7	6.8	10.7	38.0
Cumulative MTFP – Net Funding Gap	(0.0)	20.6	27.4	38.0	

Assumption that capital receipts will be generated to fund the council's transformation investment programme.

37. In the context of the council's overall financial position and its financial sustainability, a critical issue is the assumption that the council will generate capital receipts to finance its transformation programme over the 3-year period to 31 March 2025. The proposed budget has been drawn on the basis of bringing forward additional asset sales in 2022/23 to avoid all but £1.916m of the capitalisation direction. This is the element which relates to improvement expenditure on children's services which would not qualify to be funded by the Flexible Use of Capital Receipts.

The key risk to the council is in respect of any expenditure which it intends to incur before the actual capital receipts required to fund it are delivered. In 2023/24 the council intends to spend £28.39m of transformation expenditure which it plans to finance from capital receipts. The extent to which this needs to be funded from additional disposals in 2023/24 will depend on the level of actual expenditure in 2022/23 and the extent to which the original and additionally approved disposals actual occur before 31 March 2023. Current monitoring indicates that it will be challenging to deliver at least £4.3m of the £7.4m originally assumed 2022/23 asset sales.

Ideally in a completely robust budget position, via the recommendations of the budget report, approval would be sought for the asset disposals now required to deliver the additional capital receipts required in 2023/24. However, Council on 10 January 2023 agreed to establish a cross -party working group to review the capital disposal strategy for 2023/24 with an intention that this group makes recommendations to Council as to the assets that should be sold. The suggestion is that this group makes its proposals by the end of June 2023. Council can though be assured it has significantly more assets that could be sold to generate such values. However, decision-making will need to be rapid once the working party has met to ensure that the sales are completed by March 2024, for the income to be able to fund 2023/24 transformation expenditure under the Flexible Use of Capital Receipts arrangement.

Adequacy of reserves

38. **Figure 3:** Latest Reserve Forecast

	Balance Actual 31/3/22 £m	Balance Estimate 31/3/23 £m	Balance Estimate 31/3/24 £m	Balance Estimate 31/3/25 £m	Balance Estimate 31/3/26 £m	Balance Estimate 31/3/27 £m
Un-earmarked Reserves	15.3	16.0	17.9	18.6	19.3	20.0
Earmarked Reserves	114.4	17.0	12.8	12.5	12.6	12.8
Reserves established to support the 2023/24 Budget as per cost-of-living mitigation strategy						
Cost of Living Mitigation from 21/22		14.2	0.0	0.0	0.0	0.0
Redirected Earmarked Reserves		5.3	0.0	0.0	0.0	0.0
Assumed 2022/23 surplus		10.1	0.0	0.0	0.0	0.0
Total General Fund Reserves	**129.7**	**62.6**	**30.6**	**31.1**	**31.9**	**32.8**
Dedicated Schools Grant (1)	(20.3)	(36.6)	(63.7)	(106.6)	(159.8)	(224.0)
Dedicated Schools Grant (2)	**(20.3)**	**(36.6)**	**(63.7)**	**(105.9)**	**(157.8)**	**(218.7)**
Net Position DSG1 – (Deficit)	**109.4**	**26.0**	**(33.1)**	**(75.5)**	**(127.9)**	**(191.2)**
Net Position DSG2 – (Deficit)	**109.4**	**26.0**	**(33.1)**	**(74.8)**	**(125.9)**	**(185.9)**

39. Analysis on the councils unearmarked reserves included in the June 2022 MFP Update report to Cabinet showed that on a net revenue expenditure (NRE) basis, despite a £0.7m additional investment as part of the 2022/23 budget, the percentage dropped to 4.7% which put the council on the lower side of the median, and below 5% which is the recommended minimum level used by the Chartered Institute of Public Finance and Accountancy (CIPFA).

To counter this the MTFP makes provision for a £1.934m investment into unearmarked reserves in 2023/24. This includes the £700k per annum included in the MTFP from 2022/23 as part of the financial strategy to gradually increase the unearmarked reserves to reflect the increasing level of annual expenditure. The decision of Cabinet in December 2022, to include within the £1.934m an additional one-off £1.234m was on the basis that this was the amount needed to bring the reserves to the 5% CIPFA minimum recommended level.

40. Whilst the reserves maybe adequate to support the core budget for 2023/24 it does not require any professional judgement from the Chief Financial Officer (CFO) to assess that the council's reserves **cannot** be considered adequate based on the accumulating DSG deficit. However, as legislation prevents the council from making provision to offset the deficit in 2023/24 it appears there is no other option than to accept the position. Councillors do need to recognise that this legislation will not, as it stands, be applicable for the financial year 2026/27 and in the absence of government support the council will be insolvent from the 1 April 2026 onwards.

Is the budget balanced?

41. Yes, the budget is balanced and although there are a number of material risks highlighted in this report some level of comfort can be obtained by the £1.934m increase in reserve position and the existence of a £2.2m base budget contingency

Particularly salient to this comment is the fact that the budget assumes the delivery of £35.1m in annualised savings and efficiencies which is almost equivalent to the total savings budgeted over the entire previous 3-year period and this £35.1m includes £6.5m in transformation savings which are unitemised and is not associated with an individual service area for delivery. Also included is a £2m saving from the council's employee base by increasing the % not budgeted to 5% where appropriate to reflect the level of typical unfilled vacancies during the year.

S25 Report - Conclusions

42. The future financial sustainability of the council continues to be vested in the success of its transformation investment programme. Experience from peers is that such programmes are often overly optimistic around the savings that can be delivered both in terms of value and timing.

It is however true that the budget has been drafted based on an approach which is more traditional or conventional and the council has responded positively to the cost-of-living by way of its mitigation strategy.

Councillors should though be aware of the risks with the MTFP assumptions from 2024/25 onwards including.

a) transformation savings assumed at the higher end of the range.

b) an assumption of £26.1m in service specific transformation savings within Children's and Adult services. Evidence from 2022/23 shows that the investment in Children's services was part of its improvement journey rather than clearly identifiable with transformational savings and within Adult Social Care there has only been a relatively small programme around investment in technology.