



Report of the Director of Finance to the meeting of Executive to be held on 21st December 2023

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Subject:

Budget Update – Exceptional Financial Support Request.

Summary statement:

This report updates the Council's Financial Position, the action being undertaken to address projected funding gaps, the rationale for requesting Exceptional Financial Support from Government and the next steps in setting a budget for 2024-25.

Equality & Diversity

The Council serves a diverse range of individuals and communities, many of which experience significant deprivation and have differing needs. The need to make significant savings to help balance the Council's budget will inevitably impact on service provision. As proposals are developed, they will be subject to Equalities Impact Assessments which will seek to identify and to mitigate any disproportionate impacts on people with specific protected characteristics or with low incomes.

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Overview & Scrutiny Area:

Corporate

1. SUMMARY

- 1.1 This report sets out the Council's current financial position and outlook and recommends applying to the Government for Exceptional Financial Support.
- 1.2 The Council faces an unprecedented financial situation with significant funding gaps forecast for the current financial year and for 2024-25 and beyond. The Council is currently forecasting budget pressures of £73m in the current financial year and £103.6m in 2024-25.
- 1.3 The Council has a track record of delivering balanced budgets and maintaining healthy balances of reserves. Deployment of reserves to balance the 2022-23 budget and set a budget for 2023-24, in the face of soaring inflation and cost and demand pressures has however, left them depleted. Reserves will be exhausted by the end of 2023-24 with a consequent impact on the Council's financial resilience, meaning a request for Exceptional Financial Support in both 2023-24 and 2024-25 will be required.

2 National Context

- 2.1 The extraordinary scale of the funding gap is unprecedented and is driven by a combination of issues, many of which are being experienced by councils of all types in all parts of the country. Contributory factors include cost and demand pressures in children's and adults social care, inflation, the ongoing impact of austerity and the depletion of reserves.
- 2.2 The Local Government Association (LGA) estimates that the sector will need an extra £4bn over the next two years simply to stand still. These widespread issues have prompted Parliament's Levelling Up, Housing and Communities Select Committee to undertake an inquiry into "Financial Distress in Local Authorities."
- 2.3 **Children's Social Care.** Soaring growth in demand for, and the costs of children's social care is a national phenomenon which is being experienced particularly acutely in Bradford where it represents the biggest single financial pressure.
- 2.4 Recently published Government statistics demonstrated that nationally, Council spending on Children's Social Care doubled in the decade to 2022-23 from £6.6bn to £12.8bn. The Children's Funding Alliance have identified a £1.6bn annual shortfall in funding, while the Independent Review of Children's Social Care has called for an additional £2.6bn over five years to deliver much needed reform and highlighted a system under extreme stress.

The Competitions and Markets Authority identified a dysfunctional market for children's residential care in which a small number of providers can make excessive profits as local authorities compete for limited spaces. According to the Special Interest Group of Metropolitan Authorities (SIGOMA) Councils' expenditure on children's social care is now almost double what it was in 2011-12 with the most deprived Councils most affected.

- 2.5 **The Bradford Children and Families Trust** is an independent company, with a Board and Chair appointed by Government, wholly owned by the Council and managed by respected leaders in the sector. It was established following a directive from the then Secretary of State Nadhim Zahawi and the Department for Education (DfE) following a period since 2018 where the Council had been supported by a government appointed advisor; a Commissioner and the DfE. The Trust is therefore a new company operating in a particularly challenging environment in which unprecedented market pressures for residential placements are leading to high costs across the sector.
- 2.6 In Bradford, demand for services, the complexity of cases and associated costs continue to grow. The Council recognised the need to invest in children's social care to drive improvements to services following inadequate Ofsted judgements. However, high levels of deprivation – 38% of Bradford's children live in poverty – continue to drive demand and costs while children's residential fees have increased from c£3,600 per child per week in 2020-21 to c£6,000 (£312k per year) in 2023-24.
- 2.7 On-going challenges in recruitment and retention requiring the use of agency staff to fill the gap are causing further financial pressure.
- 2.8 **Adult Social Care.** Nationally adult social care faces cost, demand and workforce capacity pressures. Increasing demand sits alongside challenges in recruitment and retention as competitive wages for care workers are increasingly unaffordable for councils. These issues are reflected in Bradford where services are relatively low cost but there is considerable rising demand driven by population growth, complexity of cases and deprivation. Large numbers of children with high care and support needs are making the transition from children's social care to adult services with future cost implications for Adult Social Care.
- 2.9 As a measure of the extraordinary pressures facing the Council, forecast spend on Children's Services and Adult Social Care would be equivalent to over 87% of the Councils approved budget in 2023-24.
- 2.10 **Inflation.** Inflationary pressures on both pay and prices have occurred on a scale not seen since the 1970s, impacting on all Councils and requiring Bradford to factor an additional £58m into the budget for 2023-24.
- 2.11 **Austerity and the shift from national to local funding.** The impact of national austerity measures has made it increasingly difficult for local authorities to keep pace with rising demand and costs. Analysis by SIGOMA demonstrated the disproportionate cuts suffered by the most deprived authorities compared to more affluent authorities and specifically highlighted the disparity between cuts seen in Bradford (28%) and Surrey (8%).
- 2.12 Bradford Council has had c£350m of budget reductions since 2011 because of national austerity measures, increasing demand for social care services and rising costs. The cumulative impact is in the region of £2bn over the period.

- 2.13 National Policy has seen big increases in the proportion of the Council budgets funded via Council tax compared to Government grants. However, Bradford's ability to keep pace with rising costs is compounded by its low tax base – Band D council tax is £135 below the Metropolitan average and £400 below the highest. Revenues are approximately £20m below the average of other Metropolitan Councils on a pro rata basis. This means that Bradford Council can raise less money for vital services than wealthier parts of the country.
- 2.14 National Funding Reforms. According to independent analysis, Fair Funding reforms and business rates re-sets would have benefited Bradford by up to £32m a year if implemented. These reforms have been repeatedly delayed and will now not take place in this Parliament.
- 2.15 **Autumn Statement.** The Chancellor's 2023 Autumn Statement provided no new funding for Local Authorities in 2024-25 beyond those amounts that had been announced in last year's Autumn Statement, nor did it make reference to the pressures on children's social care. However, the increase in National Living Wage to £11.44 was higher than had been factored into inflation estimates, and it will add c£5m of pressures to Bradford's contract expenditure.
- 2.16 The Local Government Finance Policy Statement 2024-25 confirmed that there will once again be a council tax referendum principle of a maximum 3% and that local authorities responsible for adult social care will be able to add a precept of 2%. The statement also confirmed the Government's view that this is not the appropriate time to implement fair funding or business rates re-set. The Government have again encouraged councils to use reserves where possible.
- 2.17 Many councils are now experiencing very severe financial challenges, primarily because of inflation and Social Care demand, and this is reflected in the increasing numbers of Finance Directors who are warning that they will run out of reserves and must issue a Section 114 (s114) report unless they can secure additional support.
- 2.18 A s114 report under the Local Government Finance Act 1988 is issued when the Chief Finance Officer determines that the expenditure proposed to be incurred exceeds the resources likely to be available, with the consequence that no new expenditure is permitted other than that funding statutory services and honouring existing commitments and contracts. See legal appraisal below for exact terms of s114.
- 2.19 S114 reports have been historically rare, but recent research by the LGA found that one in five council chief executives and leaders believe that their chief finance officers will issue a s114 report in this or the next financial year and specific s114 warnings have been provided by a diverse range of Councils.

- 2.20 The scale of the challenge both in Bradford and nationally is without historic precedent and reflects a sector in dire need of funding and funding reform.

3 Bradford's position

2023-24

- 3.1 As detailed in the Qtr 2 Finance Position Statement reported to the Executive in November 2023, the Council was forecast to overspend by £68m in 2023-24, due to a £45m overspend in the Bradford Children's and Families Trust (BCFT), and a £23m overspend on Council commissioned and provided services. Since then, the forecast overspend has increased to £73m including the BCFT overspend rising to £49m due to further increases in costly external placements, and a £1m increase in Council commissioned and provided services. To help address this, the Trust have submitted a Type 1 contract variation request of £13.5m for year to date costs which has been agreed and paid. This is contained within the overspend.
- 3.2 For context the total annual expenditure incurred on Children's Social Care has risen from c£100m in 2019-20 to a forecast c£246m in 2023-24 including forecast overspends.
- 3.3 A key part of the plan to mitigate the 2023-24 overspend included the backdating of a revised Minimum Revenue Provision policy. However, in light of further and more recent external advice the Council is not currently pursuing this option.
- 3.4 As a result, the application for Exceptional Financial Support will include c£58m in relation to the current financial year, and additional amounts will be required for 2024-25.
- 3.5 In 2023-24 the Council used c£48m of one-off reserves to support its revenue budget; it is clear that the cost pressures within the budget are of an ongoing nature, and using reserves would not address this.
- 3.6 Expenditure on Children's Social Care has increased significantly for a number of years. The contract agreed with the Children's Trust assumed that Children's Social Care spend would reach a high point during the early months of 2023-24, but the running costs would have decreased during the latter part of the year.
- 3.7 Costs have continued to increase as outlined in previous reports and in line with the Bradford Children's & Families Trust Business plan the Trust have requested £42m more than the current contract sum in 2024-25. The business plan is however subject to further negotiation and agreement.

- 3.8 Since the Medium Term Financial Strategy was published in November 2023, a number of additional factors have also been quantified that are subject to ongoing due diligence, that influence the forecasts for future years, for example, the impact of the Council's ongoing grading review programme, treasury management costs resulting from higher borrowing and higher interest rates, the on-going impact of underdelivered savings from 2023-24, and Legal and Transport related costs associated with Children's Social Care.
- 3.9 When all the above factors have been accounted for, the Council's budget gap for 2024-25 would increase from c£72m in the MTFS, to c£103m now. It should however be noted that this is also subject to the delivery of mitigating actions.
- 3.10 Bradford faces a financial emergency and has adopted an emergency response, which builds on and adds focus to existing activity and governs the development of mitigating actions, budget proposals for 2024-25 and the Medium-Term Financial Strategy. Action is widespread and ongoing and includes measures taken within this financial year, without which the forecast funding gap would be even bigger.
- 3.11 Work is ongoing to develop a significant package of spending reductions and income increases with the necessary due diligence as part of budget proposals to be published for consideration and consultation in early January 2024.
- 3.12 Alongside the development of a significant savings plan, is the development of a comprehensive transformation programme and a plan for the disposal of Council owned land and assets. Discussions also continue with the BCFT in relation to their business plan for 2024-25 onwards, to ensure it contains appropriate mitigations.
- 3.13 The Council's Executive will publish its initial budget proposals for 2024-25 on 3 January 2024. These plans require further due diligence and reporting in January will also enable the outcome of the provisional Local Government Finance Settlement to be factored in.
- 3.14 These proposals will be subject to consultation with the public, staff, trade unions and other stakeholders before the Council meets to set its budget in February.

4 Exceptional Financial Support.

- 4.1 The scale of the current financial pressures particularly those relating to Children's Social Care, is such that a balanced budget cannot be delivered for 2023-24 or set for 2024-25 without access to additional resources to help bridge the financial gaps in those years.

- 4.2 The Council has been in close dialogue with DLUHC and the DfE about its financial challenges over the last year, and Exceptional Financial Support is the only mechanism available to support the Council through a difficult financial position.
- 4.3 The Chartered Institute for Public Finance Accountants (CIPFA) revised guidance to section 151 Officers is that they should seek support from Government before issuing a s114 report. Should Exceptional Financial Support not be provided for 2023-24 or 2024-25 as requested, then the Council's Section 151 Officer will have to issue a s114 notice recognising that a balanced budget cannot be achieved and imposing new spending restrictions.
- 4.4 The Government has previously allowed several councils to access Exceptional Financial Support by allowing them to capitalise revenue costs to enable them to get to a sustainable position.
- 4.5 A capitalisation directive allows councils to fund revenue expenditure up to a maximum value in a given year via capital financing methods including the application of capital receipts from the disposal of assets or borrowing.
- 4.6 The Council is developing a significant asset disposal programme which will be outlined in a report to the Executive in February 2024, however, the scale will be insufficient to bridge the gap, and the Council would therefore have to borrow. Some of the capital receipts would also be required to fund a revised transformation programme through flexible use. It is therefore likely that the Council would therefore have to borrow to fund capitalisation.
- 4.7 Borrowing under a capitalisation directive does however typically have a number of stipulations, including that loans must be from the Public Works Loan Board (PWLB) and be repaid over a 20 year period at prevailing PWLB interest rates + 1%.
- 4.8 Every effort will need to be made to minimise the scale of the Exceptional Financial Support request by reducing costs and increasing income in 2024-25, however, Exceptional Financial Support will be required for 2024-25 and it will be in addition to the c£58m request in 2023-24. The financial implications of this will be included in the January report.

5 Budget Setting 2024-25

- 5.1 The Council will require Exceptional Financial Support to balance its budget in both 2023-24 and 2024-25. Due diligence continues to be undertaken on the approach to tackling the structural funding gap of around £100m. The scale of the challenge is such that it will take time to address this, and it will require the phasing of significant savings and transformation over a period of at least 2-3 years, different approaches to service delivery and the investment of time and resources in wide ranging transformation.

- 5.2 Due to the unprecedented circumstances, the Council has required greater than normal lead in time to develop its budget proposals for 2024-25.
- 5.3 Significant savings will be required in the 2024-25 budget, savings proposals will be published on 3 January 2024 after due diligence and for consideration by the Executive at its meeting on 11 January 2024. These proposals will be subject to consultation before the Executive meets to recommend a budget to Full Council in February 2024.
- 5.4 Work with Bradford Children and Families Trust to incorporate further mitigations in their business plan will continue as a matter of urgent priority.
- 5.5 A one-council transformation plan of the scale needed will be developed.
- 5.6 A wide-ranging asset disposals plan will be developed.
- 5.7 The Council will require exceptional financial support to set a budget next year.

6. RISK MANAGEMENT AND GOVERNANCE ISSUES

7. LEGAL APPRAISAL

- 7.1 Authorities are required to monitor and review from time to time during the year their income and expenditure against their budget, using the same figure for financial reserves. If having conducted this review, it appears to the authority that there has been a deterioration in its financial position, it must take such action, if any, as it considers necessary to deal with the situation, and be ready to take action if overspends or shortfalls in income emerge. This is a statutory duty. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take such action as they consider necessary.
- 7.2 S.114(3) of the Local Government Finance Act 1988 requires that:

“The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure.”

Full Council is required to consider and decide what action to take on the report made under within 21 days beginning on the day the section 114 report is issued.

During the period between publication of the section 114 report and consideration by the Council, there is a prohibition on entering into any new agreements which may involve the incurring of expenditure (at any time)

unless the chief finance officer (s.151 Officer) authorises it to do so. The CFO can only authorise if he considers that the agreement concerned is likely to:

- a. prevent the situation that led him to make the report from getting worse,
- b. improve the situation,
- c. prevent the situation from recurring.

The Council must continue to comply with its statutory duties.

8 OTHER IMPLICATIONS

9 EQUALITY & DIVERSITY

The Council serves a diverse range of individuals and communities, many of which experience significant deprivation and have differing needs. The need to make significant savings to help balance the Council's budget will inevitably impact on service provision. As proposals are developed, they will be subject to Equalities Impact Assessments which will seek to identify and to mitigate any disproportionate impacts on people with specific protected characteristics or with low incomes.

10 SUSTAINABILITY IMPLICATIONS

None specific

11 COMMUNITY SAFETY IMPLICATIONS

There are no Community Safety implications arising directly from this report.

12 HUMAN RIGHTS ACT

There are no direct human rights implications arising from this report.

13 TRADE UNION

Senior management will be explaining the financial position and the proposals in to the Trade Unions following publication of the Budget Proposals report in early January. Further Consultation will continue as required at Departmental consultation meetings. Trade Union feedback will be collated and will be reported at Executive in February 2024.

We will share the proposals with the Trade Unions and consult with them on all proposals and seek their feedback. If there are any questions they can raise them at their departmental meetings. Feedback we will collate and feed in as stated above.

All employees will be briefed on the budget proposals through line management and key communications/Bradnet that will be cascaded accordingly.

14 WARD IMPLICATIONS

None specific.

15. NOT FOR PUBLICATION DOCUMENTS

None.

16. RECOMMENDATIONS

That the Executive

- 16.1 Note that the Council's financial position has continued to deteriorate.
- 16.2 Note Exceptional Financial Support is required in 2023-24 and 2024-25 and without this the s151 officer will have to issue a s114 report.
- 16.3 Note that the Executive will receive a budget proposal report in January 2024 that will outline long term spending reductions.
- 16.4 Note that there will be continued discussions with the BCFT on their Business Plan.
- 16.5 Delegate authority to the Chief Executive in consultation with the Director of Finance to engage with the Department of Levelling Up Housing and Communities to formally request Exceptional Financial Support in 2023-24 and 2024-25
- 16.6 Note the requirement for the implementation and development a transformation programme to deliver savings and future proposals.
- 16.7 Note the Type 1 contract variation request from BCFT for £13.5m of year to date costs which has been agreed and paid. This is contained within the existing overspend.

17. APPENDICES

None

18. BACKGROUND DOCUMENTS

- Qtr. 2 Finance Position Statement 2023-24– Executive - 5th November 2023
- Medium Term Financial Strategy 2024/25 to 2026/27 – Executive – 5th November 2023
- The Council's Revenue Estimates for 2023/24 – updated – Budget Council 23th Feb 2023