

Report to:	Cabinet	Date of Meeting:	Thursday 3 November 2022
Subject:	Financial Management 2022/23 to 2024/25 and Framework for Change 2020 - Medium-Term Financial Plan 2023/24 to 2025/26		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Leader of the Council		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	No		

Summary:

To inform **Cabinet** and **Council** of: -

1. The update to the Medium-Term Financial Plan (MTFP) for 2023/24 to 2025/26 taking account of all currently available information.
2. The position in respect of the Council's High Needs Budget, the commencement of the Delivering Better Value programme and within this the need to reach an annual financially sustainable position. In addition, these plans will be shared with the Council's external auditor.

Recommendation(s):

Cabinet is recommended to: -

- 1) Note the updated Medium-Term Financial Plan for 2023/24 to 2025/26 and any assumptions made.

Council is recommended to: -

- 1) Approve the updated Medium-Term Financial Plan for 2023/24 to 2025/26 and any assumptions made.

Reasons for the Recommendation(s):

In March 2022 Council approved a one-year budget plan for 2022/23. As part of this report, an indicative budget gap of £8.9m for 2023/24 to 2024/25 was reported, before any decisions on the level of Council Tax. The MTFP for this period has subsequently been updated to reflect the latest information available and to reflect the ongoing service pressures the Council is facing. The MTFP period has also been extended by a further

year to 2025/26. In approving the recommendation laid out in this report, the Council will continue to ensure resources are well managed and reflect the key priorities of the residents of Sefton.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

The report indicates that a total budget gap of **£47.612m** is currently forecast for the period 2023/24 to 2025/26, prior to decisions about Council Tax and any further budget savings being made. However, there is considerable uncertainty around some of the assumptions made, particularly around government funding.

(B) Capital Costs

None

Implications of the Proposals:

The following implications of this proposal have been considered and where there are specific implications, these are set out as follows:

Resource Implications (Financial, IT, Staffing and Assets):	
None	
Legal Implications:	
None	
Equality Implications:	
There are no equality implications.	
Climate Emergency Implications:	
The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	N

Contribution to the Council’s Core Purpose:

Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

<u>Protect the most vulnerable:</u> See comment above
<u>Facilitate confident and resilient communities:</u> See comment above
<u>Commission, broker and provide core services:</u> See comment above
<u>Place – leadership and influencer:</u> See comment above
<u>Drivers of change and reform:</u> See comment above
<u>Facilitate sustainable economic prosperity:</u> See comment above
<u>Greater income for social investment:</u> See comment above
<u>Cleaner Greener:</u> See comment above

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services is the author of the report (FD 6986/22)

The Chief Legal and Democratic Officer has been consulted and has no comments on the report (LD 5186/22).

(B) External Consultations

N/A

Implementation Date for the Decision

Following the expiry of the “call-in” period for Minutes of the Cabinet Meeting and immediately following Council.

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Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. **Introduction**

- 1.1 In March 2022, Council approved a one-year budget plan for 2022/23. The forecast revenue outturn position for 2022/23 is being reported to Cabinet each month as a key element of effective financial management and ensuring that informed decision making can take place within the severe financial environment that is currently being experienced.
- 1.2 The budget report presented to Cabinet on 10 February 2022 and Council on 3 March 2022 outlined an initial forecast for the potential budget gaps for 2023/24 to 2024/25. An initial estimate of the potential budget gap for the two-year period was £8.9m before any decision on increasing Council Tax. However, the report indicated that this initial estimate could vary considerably given the high level of uncertainty, particularly around Government funding.
- 1.3 This report provides members with the Council's updated Medium Term Financial Plan (MTFP) for the period 2023/24 to 2025/26. This period reflects the last two years of the current Spending Review and what would be the first year of a subsequent spending review period.

2 **National Context for Local Government Finance**

- 2.1 In autumn of 2021, central government announced the outcome of its three-year Spending Review for the period 2022/23 to 2024/25. This included details of the departmental expenditure limit for local government. Within this was some growth in support that would be available in 2022/23 as reported to Budget Council in March 2022, but then no additional financial support being available from 2023/24 onwards. At the time many commentators, including the Institute for Fiscal Studies, stated that without further support being made available in these latter two years, or councils having the ability to raise additional income through higher council tax increases, service reductions would be required to balance local authority budgets.
- 2.2 Crucially, this Spending Review which would see no additional support being provided in the latter two years, was based upon an assumed inflation rate of 2-3% for the period and was made before international energy prices increased substantially from the early part of 2022.
- 2.3 With inflation reaching almost 10% in September 2022, the impact on local government has been well documented with financial pressure on pay awards, energy (over 100% increase) and all contracts seeing councils having to put in remedial plans in the current year to ensure budgets can be balanced and financial sustainability maintained. Similarly, whilst current year pressure has had to be met on a temporary basis this year, the longer-term impact will be severe for councils. Pressure funded on a temporary basis this year will require permanent funding in 2023/24 and this will be compounded as there is no sign of the prevailing market conditions changing. Thus, there will be at least two years of pressure in these core areas that is substantial:-
 - Pay
 - Energy
 - Contracts

- 2.4 This pressure, in the absence of any further central government support or the ability to raise further income from taxation, will severely impact the financial sustainability of the sector. For example, the Local Government Association have recently conducted work and identified a funding gap of £3.6bn in 2023/24, rising to £4.5bn in 2024/15 (when this work was undertaken inflation was at 8%, it has since increased to 10%).
- 2.5 This position is further compounded by the cost-of-living crisis that is and will continue to affect residents and increase the demand for council services, which in turn will place further financial pressure on councils.
- 2.6 In recent years councils, the Local Government Association, SOLACE, etc., have all lobbied for further financial resources to be provided to support Adults and Children's Social Care. These two areas continue to experience significant cost pressure and the government's own report into children's social care by Josh MacAlister suggested that a fundamental review of the system was required and funding of £2bn would be needed.
- 2.7 The range and extent of these pressures that exist within local government will therefore be reflected in the financial challenge to set and deliver robust and sustainable budgets for this medium-term financial plan period.
- 2.8 In developing the Medium-Term Financial Plan, a number of estimates reflect central government policy and direction in advance of the actual local government financial settlement. With a new government now in place at this current time there has been no further information being made available to the sector on how or if these pressures will be addressed. At this time and on the rise of the September financial statement, ministers are advising that no further support will be made available to councils to support with these challenges and there is the risk that spending reductions will be required from central government departments to support this latest national budget. A further fiscal statement is due on 31 October 2022 (details are not known at the time of publishing this report) at which point further information may be available and the local government financial settlement should be received by councils before Christmas, however the current language and direction from central government at present does not suggest that further financial support will be received. By way of illustration with the Spending Review assumed inflation of 4% in 2022/23, reducing to 2-3% over the following two years, if inflation is 10% in 22/23 and 23/24 that will be compound rate of 22% by the end of that period, thus reflecting the scale of the financial challenge facing local government in the absence of further support.

3 Current Position with Sefton

- 3.1 Members will be familiar that each month Cabinet are provided with budget monitoring reports that support informed decision making and ensure that financial sustainability is maintained. During this year's reports there has been the requirement for Members to approve remedial plans in the first six months in order to meet unexpected and unbudgeted for financial pressure. This pressure has resulted from pressure in the Children's Social Care sector / national economy around agency staff rates and accommodation costs, and also price inflation on energy and the impact of the pay award, again driven by inflation.

- 3.2 Combined, these three factors have required £20m to be met, using temporary and one-off funding. Within that funding package, £3.6m of general fund reserves has been utilised, thus reducing the overall level to 5% and £12.1m – the minimum level considered appropriate for Councils and now below the estimated level of 6.5% that's required based on risks facing the Council. These reserves will need to be replenished if the overall risk level remains at 6.5% of the net budget.
- 3.3 Similarly, a significant amount of this year's financial pressure will continue into 2023/24 and require permanent funding in order to meet it- as reflected earlier in this report this will be compounded by the cost pressure from the same issues that will be experienced again in 23/24, and for which no further central government funding is forecast to be received. This is the fundamental issue facing the Council in the next Medium-Term Financial Plan period- substantial and continued cost pressure from national economic factors, historic and current lack of funding in core services, e.g., children's social care, and at the current time no indication of further central government support to meet this.
- 3.4 As a result, and as can be seen later in this report, the Council will be required to make substantial budget decisions over the period in order to maintain financial sustainability.

4 Initial Development of the Medium-Term Financial Plan for 2022/23 to 2024/25

- 4.1 The Budget Report considered by Cabinet and Council in March 2022 indicated that an initial forecast of the budget gap for 2023/24 to 2024/25 was £8.9m. This was considered to be the Council's best estimate and included the following assumptions:
- a) A reduction in general Government funding for the Council which assumed that potential changes to the way funding for local authorities is distributed would have a negative impact for the Council.
 - b) Resources to fund pay awards, increases in the pension future service rate, specific contracts and potential price increases from care providers.
 - c) No increases in costs relating to demand led services; and,
 - d) No increases in Council Tax.
- 4.2 The report indicated that the initial estimate of £8.9m could vary considerably given the high level of uncertainty, particularly around Government funding. The 2022/23 year was a one-year settlement for local authorities, as part of a three-year Spending Review. This, coupled with the number of short-term additional funding announcements over the past four years, meant that much was unknown regarding medium and long-term core funding from central government beyond 2022/23.

Key MTFP Updated Assumptions

- 4.3 Within this MTFP, there are a number of initial key assumptions that will impact upon the funding gap facing the Council in the period 2023/24 to 2025/26 as well as a number of other budget changes. These are set out as follows:

Resources to fund pay awards, increases in the pension future service rate, specific contracts and potential price increases from care providers

- 4.4 In line with previous MTFPs, the Council makes provision for the estimated costs of annual increases in pay, pensions etc. Provisions for these items initially totalled **£5.300m** per year, although certain assumptions have been subsequently revised, as described later in the report.

Levy Increases

- 4.5 The Council is required to pay levies to various bodies, the largest two of which are the Liverpool City Region Combined Authority (for Transport) and the Merseyside Recycling and Waste Authority. A provision has been included for the potential costs of increases in these levies in each of the three years (**£0.700m per year**). Sefton should receive notification of provisional figures for 2023/24 in December 2022.

Non-Recurring Items

- 4.6 Significant Treasury Management savings were built into the budget for 2016/17 following the review of policy – however, the annual value of this saving reduces at **£0.200m** each year going forward.
- 4.7 In addition, the Merseyside Pension Fund offered the Council the opportunity to prepay (in April 2020) a proportion of the total expected contributions for the three-year valuation period at a discount. After allowing for borrowing costs, there was a net saving of **£1.300m** in 2022/23 only. Therefore, this saving has been reversed in 2023/24.
- 4.8 The Council received additional New Homes Bonus in 2022/23 only. Due to the unexpected and one-off nature of this receipt, this was reserved, with the use determined during the year. This growth is therefore reversed in 2023/24 (**£0.639m**).
- 4.9 As a result of the grant allocations from government being focussed on 2022/23, with no further grant being received in 2023/24 or 2024/25, a one-off revenue sum of **£2.229m** was reserved in 2022/23, with its use to be determined during the year. This growth is therefore reversed in 2023/24.

Review of Relative Needs and Resources (formerly the Fair Funding Review):

- 4.10 The Government has previously announced that it is committed to reviewing the allocation of funding available to local authorities through the Review of Relative Needs and Resources. When announcing the Provisional Settlement for 2022/23, the Secretary of State for Levelling Up, Housing and Communities stated that “Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources” and “Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes”. Therefore, at the time of setting the 2022/23 budget in March 2022 it was assumed that the Review of Relative Needs and Resources would be completed in time to be used in allocating funding for 2023/24 onwards.

- 4.11 The Government also said that as part of the consultation they would look at options to support local authorities through transitional protection. Previously this has meant that any changes in funding have been phased in across a number of years. However, the Services Grant received in 2022/23 won't be included in any transitional protection arrangements which potentially gives the opportunity to phase in changes more quickly.
- 4.12 As mentioned in previous reports, Sefton's relative decline in population is likely to have a negative impact on the Council's overall funding position as part of the Review of Relative Needs and Resources. However, the exact impact is unknown as it will depend on the transitional arrangements put in place to protect those local authorities who would see a reduction in funding (the Local Government Association has argued that no council should see a reduction in its funding as a result of the changes). The Spending Review 2021 indicated that, apart from funding for Adult Social Care Reform and additional income from Council Tax, there won't be any increases in funding for local government in 2023/24 or 2024/25. Without additional funding for local government some local authorities will therefore see reductions in their funding.
- 4.13 However, the outcome is even more complex due to the differential impact austerity had on individual local authorities. Those local authorities that had received the most Government funding received the largest reductions in spending power whilst those who could raise more Council Tax income were less impacted. Therefore, the link between need and funding diverged, particularly in the early years of austerity, with the total spending power of two similar authorities now very different. This should also have an impact on the outcome of the Review and the funding being allocated. When announcing that 75% Business Rates Retention would no longer be proceeding, the Secretary of State for Levelling Up, Housing and Communities stated, "*You have a situation where those local authorities that have the most resilient council tax base and also the highest portion of business rates are, relatively speaking, in a stronger position...*".
- 4.14 At the time of setting the budget for 2022/23 it was considered prudent to assume that the Review will result in a reduction in funding for Sefton, and that this would be **£1.000m** in each of 2023/24 and 2024/25. This assumption is discussed more later in the report.

Business Rates Retention:

- 4.15 Sefton's Business Rates baseline was last set in 2013/14. Sefton's retained rates income is forecast to be above its funding baseline for 2021/22, so the Council is expecting to achieve a gain from Business Rate retention. As part of the Liverpool City Region 100% Business Rates Pilot Agreement the Council has retained a 99% share of growth in Business Rates since April 2017.
- 4.16 As part of the Fair Funding Review, the Business Rates baseline will be re-assessed and changed. Therefore, the benefit of these gains is expected to be lost going forward. As stated above, at the time of setting the 2022/23 budget in March 2022 it was considered prudent to assume this would take place in 2023/24. It was forecast that this reassessment will see the Council's funding reduce by **£1.000m** in 2023/24. This assumption is discussed further later in the report.

4.17 Also, nationally the proportion of Business Rates retained by local authorities will increase from 50% to 75%. It is expected that pilot authorities will also move to 75% retention so a lower proportion (74%) of any future growth will be retained by the Council.

New Homes Bonus

4.18 As mentioned in paragraph 4.8, the Council received additional New Homes Bonus, but for 2022/23 only. This funding has therefore been reversed in 2023/24.

Housing Benefit / Council Tax Admin Subsidy

4.19 In recent years the amount of subsidy received by the Council to help fund the administration costs of Housing Benefits and the Council Tax Reduction Scheme has been reducing year on year. It is anticipated that this will continue in future years with an estimated reduction of **£0.050m** a year.

Council Tax Base – additional properties

4.20 The Council Tax Base is set by Council in January each year. It reflects changes, and forecast changes, in the number of properties and the value of exemptions and discounts. For forecasting purposes, it was initially assumed that there will be growth in the Tax Base for additional properties that would generate **£0.500m** in each of the three years.

Council Tax losses

4.21 The Council Tax Base is set by Council in January each year. Due to the impact of COVID-19 on the number of Council Tax Reduction Scheme (CTRS) claimants, the reduced collection rate and the slowdown in housing growth, there was a significant reduction in the Base for 2021/22. This reduced the Council Tax Requirement by approximately £3.600m.

4.22 It was assumed that this reduced income would unwind across three years from 2022/23 as the number of CTRS cases reduces and collection rates increase to levels experienced before the pandemic. Therefore, the Council Tax Base is forecast to result in increased income (excluding housing growth) of **£1.000m** in each of 2023/24 and 2024/25.

Framework for Change 2020 – Demand Management Savings

4.23 The 2020/21 Budget Report presented to Council in February 2020 outlined the workstreams that would be established in order to review demand led budgets. Due to the size, complexity and demand for these services, a continual review would be undertaken to ensure that the cost base for these services reduces, an early intervention and prevention programme is embedded, and residents are supported in 'moving down the system' so as to reduce the demand for Council services and particularly those at the acute end.

4.24 From the initial work of the Adult Social Care workstream, savings of £3.300m were identified in 2020/21, which were built into the Base Budget for 2021/22. The continuing work of the Adult Social Care workstream identified further savings of £3.800m, which partly relates to the full year impact of previously implemented savings, as well as new savings that have been identified. Of these, £2.800m were built into the 2022/23 Base Budget, with **£1.000m** assumed to be achieved in 2023/24. These savings are considered to be permanent at this stage but will continue to be reviewed as part of the Demand Management Project.

Contribution to School Closure Reserve

- 4.25 The 2022/23 Base Budget includes a contribution of £0.750m to the reserve. This will result in the reserve standing at £1.750m at the end of 2022/23. This is considered prudent given the risks the Council might face relating to potential deficits. Therefore, the planned contribution to balances of **£0.750m** in 2023/24 would no longer be required and can be taken from the budget.

Income from the Strand Shopping Centre

- 4.26 The 2021/22 Budget Report highlighted that since the purchase of the Strand, surplus income of over £1.000m had been raised which has been used to support the Council's budget, and indeed the shopping centre had made a positive financial return each year. However, due to the significant impact of COVID-19 on retail businesses it was expected that there would be a reduction in income in 2021/22 and future years as businesses close and others experience difficult trading conditions.
- 4.27 The current business case forecasts that this income loss will be £0.500m in 2022/23 and will increase again by **£0.300m** in 2023/24. As would be expected these figures will be the subject of change and updates will be provided to Cabinet when required.

Sandway Homes Dividend – Phase One

- 4.28 The Business Case for Sandway Homes forecasted that there would be a surplus of £1.350m once Phase One of its development programme had been completed. Therefore, a dividend of **£1.350m** would be paid to the Council on completion of Phase One, expected to be received in 2024/25. As would be expected given the current economic climate, this figure could be the subject of change and updates will be provided to Cabinet when required.

Initial MTFP Position 2023/24 to 2025/26

- 4.29 Based upon the revisions relating to specific Government funding and the updated MTFP assumptions it was initially estimated that the funding shortfall between 2023/24 and 2024/25 would be **£8.882m**. This is before any Council Tax decisions are made and excludes any additional service and inflationary pressures and before any additional service delivery options are considered. A detailed analysis is shown below:

	2023/24	2024/25
	£'m	£'m
Key MTFP updated assumptions:		
- Provision for Pay Inflation	2.600	2.600
- Provision for Pension Increases	0.600	0.600
- Provision for Inflation on Contracts	0.100	0.100
- Assumed increase in Care Provider costs re. Adult Social Care	2.000	2.000
- Levy increases	0.700	0.700
	6.000	6.000
Non-Recurring Items:		
- Treasury Management	0.200	0.200

- Prepayment of Pension Contributions	1.300	0.000
- Growth funded by New Homes Bonus	-0.639	0.000
- Revenue One-off funding for 2022/23	-2.229	0.000
	-1.368	0.200
Government Funding:		
- Fair Funding Review	1.000	1.000
- Business Rates Retention	1.000	0.000
- New Homes Bonus	0.750	0.000
- Housing Benefit / Council Tax Admin Subsidy	0.050	0.050
	2.800	1.050
Other Budget Changes:		
- Council Tax Base – additional properties	-0.500	-0.500
- Council Tax losses	-1.000	-1.000
- Demand Management Savings – Adult Social Care	-1.000	0.000
- Contribution to School Closure Reserve	-0.750	0.000
- Income from the Strand Shopping Centre	0.300	0.000
- Sandway Homes Dividend – Phase One	0.000	-1.350
	-2.950	-2.850
Initial MTFP Funding Gap – excluding Council Tax	4.482	4.400
Total MTFP Funding Gap		8.882

5 Government Funding Impact

5.1 The Comprehensive Spending Review (CSR) 2021 was announced on 27 October 2021 and made a number of announcements relating to the financing of local government in 2022/23 and future years. The impact on Sefton for 2023/24 won't be fully known until the Local Government Finance Settlement for 2023/24 is published in December 2022. Similarly, the impact for future years will only be fully known when the settlements for 2024/25 and 2025/26 are published. However, for planning purposes officers have assessed the announcements in the CSR and estimated their impact on Sefton. These funding streams are described below:

General Council Tax increase

5.2 The Government has announced that local authorities are expected to be able to increase Council Tax by 2% in 2023/24 and the following year without the need to hold a referendum. Within the CSR the Government have assumed that all local authorities will increase Council Tax by the maximum amount. The Government will announce the full details of the referendum limits for each year in the preceding December as part of the Local Government Finance Settlements. This is discussed further in section 9.

Social Care Grants

5.3 In 2021/22, the Government provided £1,710m of Social Care Grant funding which was distributed using the Adult Social Care Relative Needs Formula. Sefton's allocation was £11.820m. As outlined in paragraph 2.6, it was unknown whether

this represented short-term additional funding. The Settlement has confirmed that this funding would continue to be paid in 2022/23.

- 5.4 The Settlement also announced that an additional £636.4m of Social Care Grant would be paid to local authorities in 2022/23. Of this, the Government distributed £556.4m using the Adult Social Care Relative Needs Formula, with the remaining £80m being distributed on a different basis aimed at providing more funding to those authorities with lower council tax bases who cannot raise as much through the Adult Social Care Precept. Sefton's allocation was £4.265m.
- 5.5 It was unclear from the CSR whether this funding would continue to be paid in 2023/24 and 2024/25. However, it is currently assumed that it will continue.
- 5.6 In addition, local authorities have been given the power raise Council Tax by a further 1% on top of the core principle as an Adult Social Care Precept. The Government expect that local authorities will use this power in full, having announced that this will raise a further £300m nationally as part of the £1bn funding announced as being available for social care. This is discussed further in section 10.

Services Grant

- 5.7 The Settlement for 2022/23 provided details of a new Services Grant, worth £822m nationally, to be paid in 2022/23 to local authorities and which is being distributed based on the 2013/14 shares of the Settlement Funding Assessment. Sefton's allocation of the grant was £4.477m.
- 5.8 The Government have announced that this is effectively a one-off grant to individual local authorities, although the overall funding will still be available to local government per the Spending Review. However, the grant will be excluded from any transitional protection arrangements in future years arising as a result of the Review of Relative Needs and Resources so the Council may receive a lower level of funding. It is proposed to assume this grant as ongoing.

Lower Tier Services Grant

- 5.9 The Government announced a new unringfenced Lower Tier Services Grant in 2021/22, which allocated £111m to local authorities with responsibility for lower tier services (for example, homelessness, planning, recycling and refuse collection, and leisure services). Sefton's allocation was £0.430m. This grant continued into 2022/23 with Sefton's allocation increasing slightly by £0.023m.

Public Health Grant

- 5.10 The Spending Review announced that funding for Public Health through the Public Health Grant would be maintained in real terms. However, no additional information has been received as to what additional funding will be made available in 2023/24 and 2024/25.

New Homes Bonus

- 5.11 Although the Government has been undertaking a review of New Homes Bonus it is expected that the Government will continue to make payments of New Homes Bonus in 2023/24. Officers are evaluating how much of this one-off funding might be received based on increases in housing numbers.

Settlement Funding Assessment / Business Rates Baseline

- 5.12 To support businesses in the near-term, the government decided to freeze the business rates multiplier in 2022/23. Local authorities were fully compensated for this decision through additional Section 31 Grant. It is currently unknown whether the Government will continue to provide support in 2023/24 and the implications of this, and the current high levels of inflation, on business rates income and the Settlement Funding Assessment.

Review of Relative Needs and Resources / Business Rates Retention

- 5.13 As mentioned in paragraphs 4.14 and 4.17, when setting the budget for 2022/23 it was anticipated that there would be significant changes to local government funding that was expected to mean a reduction in funding for Sefton. However, there have been no recent announcements about the status of the reviews, and it is now considered too late to implement changes in time for the Local Government Finance Settlement for 2023/24. In addition, commentators have suggested that it is unlikely that and changes will take place in the current Spending Review Period. Therefore, the original assumptions included in the March 2022 budget report have been reversed pending more details being provided by the Government.

Adult Social Care Reform Funding

- 5.14 As part of the Government's plan for health and social care, published on 7 September 2021, it was announced that £5.4bn would be made available over the Spending Review period for Adult Social Care.
- 5.15 The 2021 Spending Review confirmed that £3.6bn of this will be routed through local authorities in order to "implement the charging reforms and support local authorities to better sustain their local care market by moving towards a fairer cost for care". This is made up of £0.2bn in 2022/23, £1.4bn in 2023/24 and £2.0bn in 2024/25.
- 5.16 The Council has been working on understanding the cost implications of the elements of the reform and has been engaged with the government in advising of these potential costs. Allocations of the funding are expected to be announced as part of the Local Government Finance Settlement. The Council is currently assuming that the financial impact of the fair cost of care proposals and the social care charging reforms will need to be fully offset by additional funding from the Government.
- 5.17 The Adult Social Care service has recently invested in a new staffing structure to meet the requirements of Adult Social Care reform as well as ensure it is prepared for government inspections. It should be noted that although the service has underspent for a number of years, this underspend has been reducing. Officers have started work on trying to assess the costs of the individual Adult Social Care reform proposals. Whilst the overall budget is on a sustainable footing, there is no scope to fund Adult Social Care reform costs from existing budgets so any costs will need in line with the funding received.

6 Other MTFP Changes 2023/24 – 2025/26

Pay Award Provisions

- 6.1 The approved Base Budget included a provision for the 2022/23 pay award of 3%. This was line with most other local authorities who had budgeted for between 2.5% and 3% (and when the Spending Review 2021 was published, the Office for Budget Responsibility was forecasting inflation to be 4% in 2022). On 25 July 2022, the National Employers for local government services body made an offer to trade unions of a fixed increase of £1,925 (plus an additional day's annual leave from April 2023). For Sefton, this equates to an increase in the pay bill of about 6.5% or an additional **£4.100m** above the amount included in the 2022/23 budget. It should be noted that this is the latest offer and has yet to be formally accepted by Trade Unions – any increase in the offer will therefore require additional resources to be identified. This is a national issue for local government however Government have made it clear that no additional funding will be made available.
- 6.2 Given the current rates of inflation it is considered prudent to increase the pay award provisions for 2023/24 and 2024/2025. Therefore, **£4.600m** has been added to the 2023/24 provision, and **£1.500m** added to the 2024/25 provision. It is assumed that by 2025/26 inflation will have reduced sufficiently for the provision to be sufficient.
- 6.3 Partially offsetting the above pressures, the provision for the 2021/2022 pay award was in excess of the amount required to fund the award. This reduces the above pressures by **£1.300m**.

Budget Pressures Fund

- 6.4 The 2022/23 Base Budget includes a Budget Pressures Fund of **£1.000m**. Given the inflationary pressures currently being experienced it is proposed to utilise the Fund to offset these pressures.

National Insurance Contributions Increase

- 6.5 In September 2021, the Government announced the introduction of a new Health and Social Care Levy of 1.25%, based on National Insurance Contributions, for both employees and employers. They announced that this funding would be ringfenced for health and social care. This will be introduced from April 2022 as an increase in National Insurance Contributions before being separated out as a new distinct Levy from April 2023. The Council included **£1.250m** in its Base Budget for these costs. However, the Government have announced the reversal of this policy from November 2022. Therefore, this provision can be taken from the budget in 2023/24.

Council Tax Base – additional properties

- 6.6 The Council Tax Base is set by Council in January each year. It reflects changes, and forecast changes, in the number of properties and the value of exemptions and discounts. For forecasting purposes, it was initially assumed that there will be growth in the Tax Base for additional properties that would generate £0.500m in each of the next three years. It is now assumed that there is the potential for additional income more in line with the growth assumed for 2022/23. Therefore, an additional **£0.250m** is assumed in each of the next three years. This will be closely monitored by officers to ensure the levels of housing growth support this assumption.

7 MTFP Changes – Additional Budget Pressures

7.1 As is the case in each budget planning process, the Council brings together the potential budget pressures that have been identified during the year as potential additions to the budget. The following outlines the current pressures, however the amounts will be the subject of refinement over the coming months.

Children's Social Care

7.2 Within the Council's budget report of March 2022, the financial risk to the Council from Children's Social Care was reported extensively and was reflected in the overall risk analysis that determines the reserves that the Council should hold and the main budget report that reflected that in the absence of further government funding, if costs in children's social care (and adults social care) increased then savings would be required in future years.

7.3 This risk has been reported over the last 3-5 years within the Council and has been focussed on the number and cost of accommodation for children who require support. As a result, it has been the main area of the Council where the budget has grown, increasing from £32.0m in 2018/19 to £52.1m in 2022/23.

7.4 This risk has increased exponentially in the current year for circumstances that were unforeseen at the time of budget setting- inflation has caused accommodation costs to increase substantially with an increase in rates of over 10%, the current LAC number is 73 with some accommodation costs being in excess of £24,000 per week during the current year and agency rates for social workers have increased with a dislocation in the market so that they can now amount to £100k per annum. This latter point means that the Council is seeing recruitment and retention issues and substantial cost increases as the service tries to source staff to deliver the services required. Within the current year financial pressure of £15.5m has been reported and £11.5m will continue into 23/24 for which budget will be required.

7.5 A key recommendation from the Council's DfE commissioner was to align the Medium-Term Financial Plan of the Council to the improvement plan that is in place within the service. This alignment, while always there in all budget cycles has been undertaken on a more formal basis to inform this MTFP and will be refined in advance of the budget being set in March 2023. This has seen the Director of Children's Services advise the Chief Executive, s151 officer and deputy s151 officer via a series of meetings on the resources required to fund the service, accepting that this area of the Council will continue to be extremely volatile. These discussions have focussed on the following four areas that are reflected in this MTFP:

- Right sizing the budget for next year.
- Inflation on existing accommodation costs.
- Salary budget taking into account agency costs.
- Additional budget requirement for accommodation costs, either external placements or Council owned provision.

7.6 From this work, the estimates within this report have been signed off by the Director of Children's Services and specifically take account of:-

- Current in year demand for the service and financial pressure-£7.9m

- Known inflationary costs in the sector that will inform via a specific working group, fee increases-estimated at 10% or £2.5m in each of the following 2 years.
- Impact of recruitment of permanent staff to all posts above team leader.
- Potential impact of international social worker (ISW) recruitment and the approved social worker academy- 20 ISW's that will fill existing establishment posts thereby reducing the agency number and cost.
- A forecast of children who may require accommodation support in future years (five assumed in 23/24); and
- The estimated running costs of council owned accommodation (£0.730m per annum based on a four-bed accommodation site)

7.7 As stated, these estimates will continue to be refined in advance of the budget report being published.

Adult Social Care

7.8 It is anticipated that the National Living Wage will increase significantly from April 2023. It is expected that this, and the current high levels of inflation, will create significant additional burdens on Adult Social Care Providers in 2023/24. It is therefore considered prudent to include an additional **£3.500m** in 2023/24 and 2024/25 for the potential impact of increased fees from providers. As previously reported, there is currently no additional funding for either Adults or Children's Social Care beyond 2022/23, with government providing only the ability for councils to raise Council Tax by 1% in each year to support Adult Social Care.

Home to School Transport

7.9 There has been significant pressure on the Home to School Transport budget during 2022/23. This is due to a significant increase in the number of children being transported, especially relating to out of borough placements. In addition, there has been an increase in the cost of providing the transport. It is therefore proposed to add **£1.500m** to the 2023/24 Base Budget to mitigate these pressures.

ICT Income

7.10 There has been a reduction in income received for ICT services provided to third parties. This unavoidable cost will increase the budget by **£0.150m** in 2023/24.

Southport Pier Decking Project

7.11 Council on 29 September 2022 approved a Supplementary Capital Estimate of £3.000m for the Southport Pier Decking Project, funded by prudential borrowing. The revenue costs of this borrowing are **£0.180m** per year for which there is currently no budget.

Summary MTFP Position 2023/24 to 2025/26 including Growth

	2023/24	2024/25
	£'m	£'m
Revised MTFP Funding Gap – excluding Council Tax	4.482	4.400

Government Funding:		
- Fair Funding Review	-1.000	-1.000
- Business Rates Retention	-1.000	0.000
	-2.000	-1.000
Changes in MTFP Assumptions:		
- Pay Award 2022/2023	4.100	0.000
- Pay Award 2023/24 and 2024/25	4.600	1.500
- Pay Award 2021/22 - Overprovision	-1.300	0.000
- Budget Pressures Fund	-1.000	0.000
- Reversal of National Insurance increase	-1.250	0.000
- Additional Council Tax Income	-0.250	-0.250
	4.900	1.250
Additional Budget Pressures:		
- Children's Social Care – Permanent Pressures from 2022/23	7.900	0.000
- Children's Social Care – additional accommodation and support provision	2.000	1.000
- Children's Social Care – Social Worker Academy	1.200	0.000
- Children's Social Care – Agency Permanent Budget	1.000	0.000
- Children's Social Care – additional Communications, Legal and HR Support	0.400	0.150
- Children's Social Care – Provider Inflation	2.500	2.500
- Adult Social Care	3.500	3.500
- Home to School Transport	1.500	0.000
- ICT Contract Inflation	0.150	0.000
- Southport Pier Decking Project	0.180	0.000
	20.330	7.150
Revised MTFP Funding Gap	27.712	11.800
Total MTFP Funding Gap		38.512

7.12 From the above table it can be seen that a funding gap of £38.512m would remain over the last two years of the Spending Review period before any council tax increases (see section 11). It is good practice for a Medium-Term Financial Plan to cover three years. This supports effective medium-term planning- as 2025/26 would represent the first year of a new Spending Review period there is no financial or policy information currently available to develop a robust planning assumption. For completeness however, if a normal financial environment was in existence of 2% inflation and no public sector spending reductions then a funding gap of around £8.1m could be expected. Therefore, this should be added to the funding gap for the next two years to get that three-year view of the financial shortfall.

8 Temporary Budget Pressures

8.1 There are also other significant budget pressures that are currently considered to be temporary in nature. It is assumed that as these losses are considered temporary, they will be funded from one-off resources.

Energy Costs

- 8.2 As has been reported in the monthly reports to Cabinet, the global increase in energy prices is having a significant impact on the Council's energy and fuel costs. This is currently estimated to increase costs in 2023/24 by around £6-£7m. This is being closely monitored as more information becomes available from the Council's framework providers on the fees being paid. It should be noted that this is a national issue affecting all local authorities. However, the Government have advised that no additional funding will be made available for local government, despite representations made both nationally and locally. The Government has set up a support programme for businesses in 2022/23 and the Council is evaluating whether any of its estimated £4.5m increase is eligible. However, there is no indication of whether any support will be available for 2023/24, and if so whether the Council would be eligible. Therefore, the Council will need to evaluate its usage in light of the substantial price increase.

Sales, Fees and Charges Income

- 8.3 There was a significant impact on income from sales, fees and charges for a range of services during the pandemic. Whilst some income streams have fully recovered, others are expected to remain impacted, particularly for car parking and at leisure centres. It is currently forecast that this could result in a loss of income of up to £1.000m during 2023/24, reducing further in the following year, returning to normal from 2025/26. This forecast will be reviewed as there is more experience of the impact on reopened facilities.

Children's Social Care – Social Worker Agency Costs / Managed Teams

- 8.4 As discussed earlier, there has been a need to utilise more expensive agency workers within Children's Social Care. Whilst the implementation of the Social Worker Academy and recruitment of international social workers are expected to reduce the reliance on agency workers it is considered prudent to provide some temporary budget of £1.000m to fund some short-term costs as these take effect.

Waste Disposal Costs

- 8.5 It is anticipated that the levy from the Merseyside Recycling and Waste Authority will increase in 2023/24 to reflect the increased cost of disposing of household waste due to the impact of people working, holidaying and shopping from home. It is currently forecast that this could result in an additional cost of up to £0.500m during 2023/24, reducing in the following years, returning to normal from 2025/26. This forecast will be reviewed as there is more experience of the impact on costs.

9 Council Owned Companies

- 9.1 Within this Medium-Term Financial Plan, there are updates in respect of the financial assumptions that reflect the Council's relationship with its three wholly owned companies :-
- Sefton Hospitality Operations Limited
 - Sefton New Directions; and
 - Sandway Homes Limited

- 9.2 In accordance with the agreed governance process, business plans for each of these are due for presentation to cabinet in December 2022, with the any impact being reflected in the forthcoming budget report for 2023/24.
- 9.3 Like the council, these wholly owned companies are currently and will continue to operate in a volatile and challenging financial environment with significant financial pressure being experienced in respect of pay, supplier and supply chain cost pressure, tightening of liquidity in the market, increased interest rates and the impact of the cost-of-living crisis. These are all substantial issues that could have a financial impact on the council. Any changes reported in the business plans that are being considered will be fed into this MTFP and the current budget process, with any material variation to an agreed business plan requiring member approval.

10 High Needs Funding

- 10.1 In January 2022, the council received a report that outlined the current position on the High Needs Budget the increased demand for services and impact on the budget which is ring fenced within the Dedicated Schools Grant. It was agreed that quarterly reports would be provided to cabinet and council on progress in addressing this demand and the financial implications. This work and reporting cycle has commenced.
- 10.2 The key risk identified in that January report was in respect of the High Needs Budget and that despite government support increasing in recent years, costs of delivering the service driven by out of borough provision and numbers of children in receipt of an EHCP were exceeding the budget available. Like a number of local authorities this has led to the council having a deficit balance that accumulates each year. This reached over £12m at the end of 2021/22. At present there is a statutory override in place that allows this to be held on the Council's balance sheet under the Dedicated Schools Grant, however it is clear that this position is unsustainable both nationally and for this council.
- 10.3 As a result of this issue, central government have commenced two programmes of activity to support councils review their High Needs systems with a view to improving the service, reducing cost and delivering financial sustainability. There is a programme for those councils with the highest deficits and then a further Delivering Better Value (DBV) programme for a further 55 councils who are in a deficit position- the Council is in this programme and full detail has and will continue to be made available to members through the quarterly reporting.
- 10.4 At the same time, central government is current working on what the future of the statutory override will be- this was due to come to an end at the end of this financial year (2022/23), but there is uncertainty as to if this will take place and if it does what it will mean for councils with significant deficits, such as Sefton, and how they should fund them. At present the High Need Budget is within the Dedicated Schools Grant and as such there is no impact on the General Fund of the Council, however, if this position changes there could be a substantial financial risk to the Council.
- 10.5 Within the current year a further overspend of £4m is currently forecast , which would take the Council's deficit to £16m. Central government, following support

from Council officers, issued a call for evidence during the summer to inform ministerial discussions post September on the future of the override and treatment of deficits- the outcome from these discussions is still awaited by the sector. The Council has provided feedback that this issue should remain within the Dedicated Schools Grant, however if this changes it could have a material impact on this Medium-Term Financial Plan, the financial sustainability of the Council, its risk profile and future budget decisions.

- 10.6 As a result of this it is critical that the Council, with the support of the Delivering Better Value Programme, reaches financial sustainability, i.e., its expenditure matches income as soon as possible and indeed starts to reduce the deficit held. The focus on the work that is being undertaken in advance of the programme commencing, the speed and ambition of the DBV programme and the financial impact will need to be a key feature of future quarterly reports to Cabinet and Council from the Assistant Director of Children's Services (Education), will need to feed into future risk analysis (both the corporate risk register and the assessment of general fund reserves required) and clarity will need to be provided to Members on how this will impact future budget decisions and financial sustainability.

11 Potential Council Tax Increases

- 11.1 As in previous years the Government will set a Core Referendum Principle for Council Tax. As is customary, the government will consult on Council Tax Referendum Principles later this year as part of the Local Government Finance Settlement. However, the Comprehensive Spending Review indicated that there is expected to be a referendum principle of 2% in 2023/24 and 2024/2025. A 1.99% increase for Sefton would generate in the region of £3.000m in each year.
- 11.2 As mentioned in paragraph 5.6, local authorities have also previously been given the power to raise Council Tax by a further amount on top of the core principle as an Adult Social Care Precept. The Comprehensive Spending Review indicated that this would also be available in 2023/24 and 2024/25 at 1%. A 1% increase for Sefton would generate an additional £1.500m in each year.
- 11.3 Therefore, the overall impact of increasing Council Tax by the full 2.99% each year would be in the region of £4.500m, or **£13.500m** across the three years.
- 11.4 The actual core referendum principle, and the level of Adult Social Care Precept, are announced as part of the Local Government Finance Settlement in December each year. They could therefore be different to the figures above. The Institute for Fiscal Studies, in their initial briefing on the CSR, stated '*...things might still feel tight in other areas. Perhaps nowhere is this truer than in local government, where after a jump next year (2022/23), grant funding for existing services will be more or less frozen in the following two years - **bigger council tax rises than the government plans to allow could be necessary to maintain services.***'
- 11.5 A decision on the level of Council Tax is made by Budget Council each year. The 2022/23 Band C Council Tax is £1,569.58. It should be noted that as part of the Comprehensive Spending Review the Government assumes local authorities raise Council Tax by the maximum amount when calculating an individual authority's Spending Power and this will directly influence future years' funding allocations.