

<b>Report to:</b>	Cabinet Council	<b>Date of Meeting:</b>	7 September 2023 14 September 2023
<b>Subject:</b>	Financial Management 2023/24 to 2026/27 – Medium Term Financial Plan 2024/25 to 2026/27		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	(All Wards);
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

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

1. The update to the Medium-Term Financial Plan (MTFP) for 2024/25 to 2026/27 taking account of all currently available information.
2. To provide an update on other areas that informs financial decision making including the Council's reserves position, its growth programme, its position on its wholly owned council companies and the High Needs budget as these are all interlinked with the MTFP.

### Recommendation(s):

**Cabinet** is recommended to: -

- 1) Note the updated Medium-Term Financial Plan for 2024/25 to 2026/27 and any assumptions made.

**Council** is recommended to: -

- 1) Approve the updated Medium-Term Financial Plan for 2024/25 to 2026/27 and any assumptions made.

### Reasons for the Recommendation(s):

In March 2023 Council approved a one-year budget plan for 2023/24. As part of this report, an indicative budget gap of £18.5m for 2024/25 to 2025/26 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 2026/27. 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 **£44.245m** is currently forecast for the period 2024/25 to 2026/27, 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 in 2025/26 and 2026/27.

**(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:

<b>Resource Implications (Financial, IT, Staffing and Assets):</b>	
None	
<b>Legal Implications:</b>	
None	
<b>Equality Implications:</b>	
There are no equality implications.	
<b>Impact on Children and Young People: Yes</b>	
The report highlights the additional resources included within the Medium-Term Financial Plan relating to services provided for Children and Young People.	
<b>Climate Emergency Implications:</b>	
The recommendations within this report will	
Have a positive impact	No
Have a neutral impact	Yes
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	No
The allocations of capital funding outlined in section 7 may be spent on projects that will have a high climate change impact as they could relate to new build, rebuild, refurbishment, retrofit and demolition proposals. Environmental consideration will be taken into account when specific projects are designed and tendered – which will help	

to mitigate negative impacts.

**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.

**Protect the most vulnerable:**

See comment above

**Facilitate confident and resilient communities:**

See comment above

**Commission, broker and provide core services:**

See comment above

**Place – leadership and influencer:**

See comment above

**Drivers of change and reform:**

See comment above

**Facilitate sustainable economic prosperity:**

See comment above

**Greater income for social investment:**

See comment above

**Cleaner Greener:**

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 7345/23)

The Chief Legal and Democratic Officer has been consulted and has no comments on the report (LD 5545/23).

**(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.

<b>Contact Officer:</b>	Stephan Van Arendsen
Telephone Number:	Tel: 0151 934 4082
Email Address:	Stephan.VanArendsen@sefton.gov.uk

**Appendices:**

There are no appendices to this report.

**Background Papers:**

There are no background papers available for inspection.

## 1. **Introduction**

- 1.1 The Medium-Term Financial Plan (MTFP) is presented to Members each year with a view to outlining the strategic approach that the Council will take to managing its financial matters. As with previous years, this plan will need to take account of the significant change that is being experienced within Local Government both in terms of the manner and level of funding that is made available to councils and also the roles and responsibilities that it is required to fulfil.
- 1.2 As such this report sets out the specific financial challenges facing the Council over the next three years and how it plans to meet these. The approach to setting the Council's three-year revenue budget for the period 2024/25 -2026/27 and all other key financial issues that require consideration are also set out in the report.
- 1.3 There has been great uncertainty and change in the last 12 months with regard to the Central government funding that would be made available to local government and the financial parameters that councils should work within. The local government finance settlement for 2023/24 provided a good indication of funding that will be made available for 2024/25 and although there is risk around some of the assumptions, that is much less than in previous years. Beyond that point there is little information available to support financial planning, but it is critical that the Council makes estimates of the position that it could be in and develops a three-year budget package that can be updated as it progresses. During this period, a general election will be held and naturally the outcome of this will inform not only the financial resources available to the Council but will also define its roles, responsibilities and policies that are to be followed. As with previous years the full detail of the Local Government Finance Settlement for 2024/25 is expected at council level just before Christmas 2023.
- 1.4 A MTFP update for future years was included within the Budget report at March 2023 and this report provides Members with the latest information available to support 2024-25 to 2026-27 budget planning.

## 2. **Approach to Budget Planning and Financial Sustainability**

### Financial Management Context

- 2.1 The Council has effective financial management arrangements which has enabled the delivery of significant savings over the last 13 years that has enabled the Council to set robust, deliverable and sustainable budgets while delivering priority services. Financial sustainability has been at the heart of this approach and this needs to continue over this three-year budget cycle.
- 2.2 In this approach the Council needs to be cognisant that the complexity and range of issues that it will need to address is becoming ever wider. In addition to the normal General Fund Budget setting, it is critical that there is a full financial understanding that informs decision making of the Council's reserves position, its growth programme, its position on its wholly owned council companies and the High Needs budget as these are all interlinked.



- 2.3 In 2023/24 the Council continues to face significant challenges driven by the conditions in the national economy, especially high levels of inflation and the continued pressure within the demand led budgets of Adult Social Care and Children’s Services including social care and home to school transport. These are being managed at the same time as an agreed savings programme is being delivered in the wider Council. The first budget monitoring report for 2023/24, considered these in detail with Children’s Services and the impact of pay inflation again being prominent and key pressures during the year.
- 2.4 The challenges facing the Council over the coming three years are likely to be equally as significant. There is no indication that the Council will be in receipt of substantially more funding over this period and the demand for services is likely to increase. At present over 70% of the Council’s revenue budget is allocated to Adults and Children’s Services plus Home to School Transport. This means there is less than 30% of the budget for all remaining services. At a time of increased demand led growth it is essential that a three-year budget strategy is developed in order to support not only financial sustainability but also these services who for a number of years have had no growth in budget size, have contributed significant savings and at times worked within a vacancy freeze in order to support short term savings. This context as stated is critical for both budget planning but also service delivery and the delivery of the Corporate Plan.
- 2.5 The next three-year budget planning cycle will also take place at the same time as the Council’s Children’s Service Improvement Plan is delivered - this is the priority for the Council. As Members will be aware, a recommendation in the Commissioner’s report was that the MTFP should be aligned with that Improvement Plan for a period of five years. That process was conducted and reflected in the budget report of March 2023, and this will again be a key feature of this MTFP. Substantial ongoing work is continuing on this budget, with the Chief Executive, s151 officer and Director of Children’s Services working collaboratively on the management of the in-year position and longer-term budget plan. This service is now showing signs of stability in terms of financial management with the Council

understanding the key cost drivers of each aspect within the service. These will be developed over the course of this budget planning process and will continue to be aligned to the Improvement Plan and the view of the service around future demand in order to inform the three-year budget plan. This will in turn inform budget allocation, budget realignment in the service as required and how this will influence other budgets across the Council and longer-term investment opportunities.

- 2.6 The sections that follow in this report will therefore set out the national challenges facing all councils, the Council's forecast position and the steps taken to set a budget for the next three years.

#### Local Government Financial Environment

- 2.7 This Medium-Term Financial Plan sits against a continued backdrop of financial uncertainty and challenge for local authorities. The Local Government Financial Settlement for 2023/24 provided a degree of certainty to support financial planning for 2024/25 but as would be expected in light of current economic conditions and the forthcoming general election there is little information available to inform decision making beyond that point.

- 2.8 Whilst the funding that will be made available from central government remains difficult to forecast the financial environment the Council operates within is at present equally difficult to navigate is extremely volatile. This is reflected in:

- Significant inflationary pressures. The UK is currently experiencing higher than average inflation levels. The Consumer Price Index (CPI) is currently at 6.8%, and the Retail Price Index (RPI) is at 9.0% (although the rates were around 10% and 13% respectively for most of 2022/23). This is directly impacting on the costs of providing services and capital investment of all councils as well as having an impact on the wider economy and the cost of living for residents.
- Continued cost pressures relating to Adult Social Care and Children's Services including Social Care. The demand for, and cost of, social care and home to school transport continues to increase across both adults and children.
- The longer-term impacts of Covid-19 and the financial impacts of economic recovery including the role of councils in supporting the recovery process.
- The long-awaited Review of Relative Needs and Resources (formerly the Fair Funding Review) was due to review and reset councils' funding baselines according to local need. It has been delayed for several years by Central Government and had been expected to be the subject of consultation in Spring 2022 but there has been no progress and it is now unlikely that there will any change in this three-year budget planning period.
- As part of the Review of Relative Needs and Resources the Council would expect the Business Rates Retention gains the Council has made since the last reset would be lost. In addition, 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. It is unclear what will happen to Business Rates Pilot schemes if the Review does not go ahead.
- The level at which the Council Tax referendum limit will be set over this financial planning period was confirmed in 2022. The policy is that council tax can increase by 2.99% per annum and a further 2% can be levied for Adult Social Care each year. This will be reflected in the Spending Power calculation for each council. There is uncertainty however as to whether this policy will continue after the next general election.

- Health Integration – This integration is intended to bring together key functions such as social care, mental health services and public health advice, to deliver ‘joined up care’ for its local population, improve people's health & wellbeing and reduce health inequalities.

2.9 The level of uncertainty nationally makes planning ahead for the medium-term very difficult and makes it one of the most difficult years to be setting a budget. As such it is important that councils ensure they are appropriately prepared for a range of outcomes.

#### The Sefton Approach

2.10 As previously mentioned, the Council has over the last 13 years had a commitment to making all key decisions that would deliver financial sustainability. This is becoming increasingly difficult to maintain and the range of issues and functions that need to be considered and addressed continues to increase. This was also compounded by the unprecedented issues within the Children’s Services budget in 2022/23.

2.11 The Budget Report approved in March 2023 set out an estimated net funding gap over the period 2024/25 to 2025/26 of £18.535m, excluding any potential increases in Council Tax. In developing this Medium-Term Financial Strategy, the Council has sought to update this overall financial position based upon the latest information available. Central to this exercise has been a review of all assumptions underpinning the funding shortfall including all funding streams, both centrally allocated and locally generated, and all inflationary and demand led cost pressures.

2.12 As with any financial forecast the assumptions contained within it will be continually updated as additional information becomes available or assumptions are confirmed. Particular consideration must be given to the impact on future year budget requirements of demand increases, the pressures emerging in year linked to inflation and the delivery of savings. Members will be informed at regular intervals of the budget setting process as to the impact of any of these changes.

2.13 Some of the areas that will be the subject of continued review during this period will include the financial impact arising from:

- Inflation, including the impact of workforce shortages in some areas on pay levels.
- Pay awards.
- Level of contingencies required.
- Use of reserves.
- Capital financing.
- Trading position of Council companies.
- Demand led pressures relating to Adult Social Care and Children’s Social Care; and
- Impact of regeneration and other Council sponsored major developments.

2.14 Taking into account the latest available information relating to funding, and having considered and refreshed all other planning assumptions, the estimated overall gross funding gap facing the Council over the next three years is in the region of £44m (excluding any potential increases in Council Tax). This is summarised in the following table:



Table 1: overall funding shortfall over MTFP period 2024/25 to 2026/27

	2024/25	2025/26	2026/27
	£'m	£'m	£'m
<b>Investment:</b>			
CSC – Accommodation Costs	2.000	2.000	2.000
CSC – Additional Legal Support	0.150	0.000	0.000
ASC – from additional funding below	3.268	0.000	0.000
Home to School Transport- growth in demand	0.400	0.400	0.400
Southport Pier	0.180	0.000	0.000
Marine Lake Event Centre*	0.000	0.000	0.700
Strand redevelopment*	0.000	1.100	0.000
Crosby Village Centre*	0.000	0.000	0.410
(* Indicative net additional costs and phasing)			
<b>Total Investment</b>	<b>5.998</b>	<b>3.500</b>	<b>3.510</b>
<b>Inflationary Pressures:</b>			
Provisions for Pay, Contract Inflation, etc.	8.700	6.400	6.400
Assumed increase in Care Provider costs re. ASC	7.500	5.500	5.500
Assumed increase in Care Provider costs re. CSC	2.000	1.250	1.250
Assumed increase in Home to School Transport	0.500	0.300	0.300
<b>Total Inflationary Pressures</b>	<b>18.700</b>	<b>13.450</b>	<b>13.450</b>
<b>Other MTFP Changes:</b>			
Council Tax Base	-1.050	-0.500	-0.500
Impact of Budget Decisions in Previous Years	0.200	0.200	0.200
Impact of Budget Savings agreed March 2023	0.455	-0.800	0.000
<b>Total Other MTFP Changes</b>	<b>-0.395</b>	<b>-1.100</b>	<b>-0.300</b>
<b>Additional Funding:</b>			
Social Care Grant	-4.100	0.000	0.000
ASC Market Sustainability and Improvement Funding (funding investment above)	-1.798	0.000	0.000
Adult Social Care Discharge Fund (funding investment above)	-1.470	0.000	0.000
Settlement Funding Assessment / Business Rates Baseline	-2.600	-2.600	0.000
	<b>-9.968</b>	<b>-2.600</b>	<b>0.000</b>
<b>Revised MTFP Funding Gap excluding Council Tax and budget savings</b>	<b>14.335</b>	<b>13.250</b>	<b>16.660</b>
<b>Total MTFP Funding Gap</b>			<b>44.245</b>

2.15 It should be noted that this position assumes that no rightsizing of budgets will be required on an annual basis.

- 2.16 Within this position it can be seen that there are £55m of Council wide cost pressures across the three years (excluding ASC investment funded by additional Government funding) including the following:
- Children’s Social Care – additional resources of £10.650m, including funding for inflationary pressures (£4.500m) and potential increases in demand for accommodation (£6.000m).
  - Home to School Transport - additional resources of £2.300m to fund inflationary pressures (£1.100m) and potential increases in demand for the service (£1.200m).
  - Adult Social Care – additional resources of £18.500m to fund the net cost of inflationary provider fee increases.
  - Other Inflationary Pressures – additional resources of £21.500m relating to the additional costs of funding pay awards, pension contributions, contract inflation and levy increases.
  - Growth Programme – additional resources of £2.390m to fund investment in Council assets.

2.17 The funding gap presented of £44m is **before** taking into consideration any additional locally generated income in the form of Council Tax which would be expected to raise an additional £25.2m subject to Member approval (and assuming the referendum principles from 2023/24 and 2024/25 remain in place).

2.18 A 2.99% increase in the Council Tax rate would be in line with Central Government’s national planning assumptions for 2024/25, and the figures presented include a refreshed council taxbase reflecting forecast housing growth, collection rates and the anticipated cost of the Council Tax Reduction Scheme. The resources a Council Tax increase could potentially generate, including the impact of a 2% Adult Social Care Precept is shown below:

Table 2: Potential Resources generated from Council Tax Increases 2024/25 to 2026/27

	2024/25 £'m	2025/26 £'m	2026/27 £'m	Total £'m
Core increase (2.99%)	4.800	5.040	5.280	15.120
Adult Social Care Precept (2.00%)	3.200	3.360	3.520	10.080
<b>Total</b>	<b>8.000</b>	<b>8.400</b>	<b>8.800</b>	<b>25.200</b>

2.19 The growth in business rates reflects an annual increase in the nationally set Multiplier which is directly linked to the Consumer Price Index. In recent years businesses have been protected from these inflationary increases and Central Government has reimbursed councils via a grant for the lost income and it is assumed that this will continue to be the case.

2.20 As stated previously, forecasts will continue to be refined as further government announcements are made and clarity received on funding streams and cost pressures.

2.21 In light of the anticipated funding gap over the MTFP period, the Council is developing strategies in order to meet the challenges faced. Given the financial

uncertainty the focus will be on developing a balanced and sustainable budget for the next three years to provide some stability to the organisation.

- 2.22 As discussed earlier in this report, the Council has a demonstrable track record in developing deliverable budget packages that facilitate the delivery of sustainable services to the residents of the Borough, and ensure effective and efficient financial management, but this is becoming increasingly challenging. As such, in approaching this budget cycle, the Council will once again require a comprehensive approach to developing a budget package as the size of the financial challenge is significant, especially when considered against the scale of reduction experienced over the last 13 years. As part of this three-year budget cycle, it will also be important that the Council can demonstrate how it continually demonstrates that it achieves value for money in the delivery of services. The use of comparative data can sometimes generate debate; however the Council will identify key themes, trends and analysis which will be used to inform budget decisions over the three-year period.
- 2.23 The scale of the financial challenge facing the Council over the next three years will require key long term policy decisions to be made at the earliest opportunity if the Council is to remain financially well managed.
- 2.24 The Council's Corporate Plan for the period 2023 to 2026 set out the Borough's key challenges, which will guide the development of the budget package to ensure it is closely aligned to these priorities. These are:
- Children & Young People - Improving outcomes for children and their families.
  - Health & Wellbeing - Improving the health and wellbeing of everyone in Sefton and reduce inequality.
  - Adult Social Care - Empowering people to live an independent life, exercise choice and control, and be fully informed.
  - Working for Our Communities Every Day - Working together to deliver affordable services which achieve the best possible outcomes for our communities.
  - Inclusive Growth - Creating more and better jobs for local people.
  - Financial Sustainability
- 2.25 The process must, as always, remain a careful balance between balancing the budget in the short term whilst still maintaining prudent financial management over the longer term.

### 3. **Climate Emergency**

- 3.1 As Members will be aware, the Council has declared a climate emergency with the aim of being net zero at 2030. Progress on the project has been positive to date and firm progress towards this goal has been made and is on target. Over the course of this MTFP period, the remaining activities that will deliver on this net zero aim include the replacement of fleet and decarbonisation of a number of buildings including all Leisure Centres. Decarbonisation plans are in place and the Council clearly understands what is required to meet this target, however the estimated cost of the required fleet, boilers, etc., is estimated at £30m. If borrowed this would amount to around £1.5m additional cost per annum. This figure is currently not in

the MTFP calculations as the Council seeks to determine what grants / funding will be made available from central government. This is a key feature of this MTFP.

#### **4. Member Engagement in the Budget Setting Process**

- 4.1 In order to facilitate the development of a budget package the Council will utilise a clear budget planning process involving key officers. A series of engagement and update sessions will be held throughout the budget cycle with the outcome being reported to Cabinet Members, on a collective basis, and in advance of February 2024 Budget Council in order that a progressive and informed budget package is developed.
- 4.2 The final budget package is scheduled in the committee diary to be considered by Overview and Scrutiny (Regulatory, Compliance and Corporate Services) Committee on 6 February 2024, Cabinet on 8 February 2024, and Council on 29 February 2024.

#### **5. Public Consultation**

- 5.1 The Council will ensure that as a budget is developed, appropriate consultation, engagement and communication takes place on the proposals for 2024/25 to 2026/27 in the final quarter of 2023.
- 5.2 Feedback will be shared with members and inform the budget package put forward to be agreed by Council on 29 February 2024.

#### **6. Financial Resilience**

- 6.1 The financial resilience of councils is something that has gained a higher profile in recent years, with an increasing number of councils now facing financial difficulties. In addition to the continued uncertainty surrounding Local Government funding and the pressures facing social care services for both adults and children, the current cost of living crisis and increasing inflationary pressures, has the potential to impact further on the financial resilience of many councils.
- 6.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a Financial Resilience Index that measures the financial resilience of councils. The latest results were announced in May 2023 based on data from financial year 2021/22.
- 6.3 From this work there are two key issues for the Council. Firstly, when updated for the 2023/24 budget the Council will move from a period of medium risk to one of high risk due to the high amount (in percentage terms) of its budget it spends on demand led services, e.g., Adults Social Care and Children's Services. This is considered high risk as if spending pressures increase either in this area or other areas there is little flexibility to meet this pressure. As reported earlier there is approximately 70% of the Council's budget spent in these areas and this budget cycle needs to have this as a primary consideration, not only due to this risk but also as the Council has a large number of other services it needs to provide. A further increase in the proportion of the budget allocated to these demand led areas will increase the financial risk the Council faces and compromise financial sustainability.

- 6.4 The second key issue is around the level of reserves the Council holds. The Council's Reserves Strategy aids longer-term financial stability and mitigates the potential impact of future events or developments which may cause financial difficulty. The Council has a low level of total reserves compared to other councils.
- 6.5 As detailed later in this report, the Council ensures it has sufficient resources in General Fund Balances but has a much lower level of Earmarked Reserves to fund costs that will arise as a result of existing plans and commitments compared to others. These reserves are not relied upon to fund routine Council expenditure. General Balances and Earmarked Reserves are a key measure of the financial resilience of the Council. Any use of General Fund Balances would need to be reimbursed over the medium-term planning period to ensure that the Council continues to hold a level of Balances within the risk assessed range. Further information on the current level of reserves is set out later in this report.
- 6.6 The Council closely monitors its finances with routine reports being considered by Members on a monthly basis, with quarterly reports including comprehensive performance and risk sections. Remedial action is taken whenever required to offset emerging budget pressures. All savings proposals are regularly reviewed for deliverability and are risk assessed by officers throughout the year. The Council also undertakes regular reviews of its balance sheet risks and takes appropriate action as necessary.
- 6.7 As such the Council has a very strong record of sound financial management and has continued to deliver budget savings each year throughout the last 13 years. These have ensured that it has been able to protect core service provision and remain in a strong position financially.
- 6.8 Planning ahead for the medium-term enables the Council to make strategic and well considered decisions in relation to its finances and service provision. There continues to be uncertainty about the future funding levels for the Council going forward alongside the significant impact caused by the current cost of living crisis and increased inflation and the pressure and Improvement Plan with Children's Services making this approach more important than ever.
- 6.9 The Council does not underestimate the significant challenges faced both nationally by the Local Government sector as well as locally and recognises that dealing with these challenges is becoming increasingly difficult against a backdrop of uncertainty around economic recovery and Central Government support.

## **7. Capital Programme**

- 7.1 In addition to developing a revenue budget package the Council also needs a Capital Programme that continues to invest in both existing operational assets and the development of larger infrastructure projects that will enhance facilities for everyone within the Council's boundaries in addition to the Borough's economy.
- 7.2 As part of the budget package agreed in March 2023 an indicative Capital Programme for the next three years was approved and this aligned with the Council's Capital Strategy. The Council has a Growth Programme now in delivery

that includes the Southport Town Deal programme and investment in Bootle via the government Levelling Up Programme. This total Programme will need robust financial management to ensure it remains affordable and deliverable and in particular that:

- the Capital Programme is set within Prudential borrowing limits and in line with the Council’s Capital Financing Strategy as approved by Members in March 2023.
- That capital plans, funding strategies and affordability is continually reviewed as a result of the current and forecast economic issues that exist such as high inflation and supply chain issues; and
- the investment supports the delivery of the Council’s corporate Plan.

7.3 In 2023/24, the Authority is planning capital expenditure of £64.106m. The table below identifies the scale of planned Capital expenditure over the medium-term.

Table 3: Estimate of Capital Expenditure over MTFP period 2024/25 to 2026/27

<b>Capital Expenditure</b>					
	2021/22	2022/23	2023/24	2024/25	2025/26
	£m	£m	£m	£m	£m
	Actual	Actual	Estimate	Estimate	Estimate
TOTAL	32.536	38.705	64.106	58.986	17.659

7.4 The estimated levels of expenditure above represent those elements approved by Council and which have been included within the Capital Programme. A summary of the Council’s current Capital Programme was included as part of the Council’s main budget report and was published alongside the Capital Strategy document. This continues to be updated as future capital decisions are made. These updates are reported as part of the monthly budget monitoring reports presented to Cabinet.

7.5 One of the fundamental requirements and drivers to maintain and continually update the Council’s Capital Strategy is the greater emphasis on locally generated income (e.g., Council Tax and Business Rates) to support local government funding. The reliance on this income to support the delivery of frontline services means that it is important that the Council, working with its partners, optimises the opportunity. As a result, development of economic growth is important in ensuring that financial sustainability for the Council is achieved, and the ambitions as set out in Vision 2030 are met.

7.6 Funding for the Capital Programme is derived from variety of sources including external grants, contributions and capital receipts.

7.7 Capital receipts are generated in accordance with the Council’s approved Asset Management Strategy and Disposal policy. There are currently approximately £30m of capital receipts either received or in the pipeline of activity which are being used to support the Growth Programme.

7.8 The Southport Town Deal projects – which were approved by the Department for Levelling Up, Housing and Communities (DLUHC) – have been included within the

estimates of capital expenditure above. Southport is set to receive £37.5m in government grant funding for a range of projects across the town centre and seafront following the successful bid and the award represents one of the largest Town Deals that the government has agreed nationally and across 101 towns.

- 7.9 Additional funding of £20m for Bootle has also been provided as part of the government's Levelling Up Programme which will support the regeneration of the town centre.

## 8. **Council Wholly Owned Companies**

- 8.1 The Council wholly owns three companies who provide services on its behalf. These are Sandway Homes Limited, Sefton Hospitality Operations Limited and Sefton New Directions.
- 8.2 While they operate at arms-length from the Council, the Council remains at least partially responsible for their performance and can be impacted by financial pressures they face and risks they carry. As such it is prudent for the Council to recognise potential cost pressures the companies face in its financial scenario, to the extent that they may affect the Council's future budgets.
- 8.3 Within the current financial environment of the UK there are two sectors that are under substantial financial pressure- the adult social care market and the housing sector. The main risks over the current financial planning period therefore relate to Sefton New Directions and Sandway Homes Limited. Sefton New Directions is facing financial challenges around staff costs, inflation and providing care, whilst Sandway Homes is being impacted by cost of construction, supply chain issues and the timing and pace of sales of homes due to interest rate increases.
- 8.4 A report on Sefton New Directions was presented to Cabinet in July and this outlined the comprehensive review of the business model for the Company - the outcome from this review will be considered at October Cabinet. Elsewhere on this agenda an updated Phase 1 Business Plan for Sandway Homes Limited is included together with the financial issues and implications that are arising.
- 8.5 In respect of Sefton New Directions despite losses in 2022/23 and forecast losses in the current year, reserves of £1.8m are forecast to be available to the Company at 31 March 2024. With a full review of the operating model being undertaken at present it is not anticipated that there will be an impact on the wider Council's finances.
- 8.6 In respect of Sandway Homes Limited, the latest business plan forecast for Phase 1 states that the dividend to be received will be £0.300m with the timing of financial returns in respect of peak debt, dividend and capital receipts being as previously reported. The Company continually updates the key aspects of what an exit strategy would look like but at this stage it is not forecast that there will be an impact on the Council's wider finances, however this will be kept under continual review.
- 8.7 The Council continues to work closely with all of its companies' experiencing income or cost pressures so that it can consider any actions that may need to be taken.

## 9. **Next Steps / Timetable**

9.1 Given the period of this Medium-Term Financial Plan the intention is to set a three-year budget covering this period. The key next steps are as follows:

- Budget planning sessions to be held to refine the budget package and bridge the funding gap.
- Continue to review and refine the financial scenario in light of the latest information available.
- Budget engagement.
- Consider the budget package in light of the Provisional Local Government Financial Settlement expected in December 2023; and
- Finalise a budget package with the draft Budget Report to be considered by Overview and Scrutiny Committee and Cabinet before full Council.

## 10. **General Balances and Earmarked Reserves**

10.1 As part of its financial management process, the Council ensures it has set aside resources in General Fund Balances to fund unforeseen costs that may arise. In addition, the Council also holds Earmarked Reserves which have been provided for, for specific existing plans and commitments. The Council's approach to managing these balances and reserves was set out in the Budget Report approved by Council in March 2023.

10.2 Following the risk assessment undertaken at that time it was considered an appropriate level of General Balances for the Council would be in the region of 6.5% of the net revenue budget. Allowing some flexibility around this figure for changing circumstances, General Fund Balances between £15.9m and £17.9m would be considered prudent as a target for March 2024.

10.3 As at 31 March 2023 the Council held General Balances of £11.991m and Earmarked Reserves of £51.790m (£22.475m of which relates to unutilised Revenue Grants and Contributions). The budget for 2023/24 included a contribution to General Balances of £4.423m so balances are budgeted to increase to £16.414m by 31 March 2024. This amount of General Balances is within the risk assessed range at this time, however the risks facing the Council continue to increase, therefore it is likely that this sum will also need to increase. It is suggested that a sum of £23.00m should be the level of General Fund Balances that should be reached during this MTFP period (and importantly if any are used then they should be replenished in the same period). This higher level also reflects that unlike some other councils, Sefton does not have a historically high level of Earmarked Reserves that it could call on should there be an immediate or unforeseen financial shock.

10.4 In May 2023 DLUHC provided an update on levels of reserves and balances held by councils and whilst the Council's General Fund Balances were slightly higher than the median level across the country which is positive (at 6.13% vs 5.93%), as stated the Council has Earmarked Reserves that are substantially lower than the same comparator local authorities. The Council has always taken the view that Earmarked Reserves should only be held for a specific purpose, hence the continual review, however this level does mean that the flexibility reduces if an adverse situation develops that could require the redirection of resources. From



the current analysis it is estimated that £12m of Earmarked Reserves could be redirected to support the Council's wider budget position should a financial shock be experienced - this includes £9m in respect of the Environmental Warranty reserve which has been held for over 17 years and is currently the subject of review to determine its future. As such it is important that the General Fund Balances are at a level that compensates for this lower level of Earmarked Reserves.

- 10.5 As part of the in-year monthly monitoring that is undertaken and reported to Cabinet, Members will be aware that a surplus is forecast in respect of Business Rates. This is mainly due to changes in the Appeals Provision as a significant number of appeals were settled by the end of 2022/23. This position does not impact on the 2023/24 budget position but a one-off surplus of £4.8m could be available in 2024/25, depending on the amount that is required to be set-aside for future appeals against the latest Business Rates revaluation. If added to the current General Fund Balances of the Council, this would increase the level of Balances held to £21.214m on 1 April 2024.
- 10.6 In moving to this position, it is also recommended that consideration be given to an annual contingency being set up in respect of Children's Social Care to manage any cost pressure that arises between setting the budget (usually based on information as at end November) and the end of the financial year. This budget has increased from £39.2m in 2018/19 to £80.1m in 2023/24, but despite this and the forensic work that has taken place to inform each annual budget, it has overspent each year - this puts pressure on using General Fund Balances and also on other services to underspend to balance the in-year position, therefore it is considered that this is a specific risk that should be addressed in this MTFP period. If in discussions between senior officers, it is considered that the service is stabilising and this pressure will no longer materialise and the forecasting is more robust, this would not be required.
- 10.7 As part of this budget setting process the Council will review all of its Earmarked Reserves with due regard being given to the impact of any emerging issues and any other strategic financial decisions that will be made over the next four years.

## 11. **High Needs Deficit**

- 11.1 Win addition to the Council's General Fund Balances and Earmarked Reserves there are also those in respect of the Dedicated Schools Grant. As has been reported continually over recent years, the key issue and risk within this is the deficit balance in respect of the High Needs Budget. This has grown gradually since system reform in 2013. Up until 2019/20 the growth in the deficit was £1m-£2m per year so that the total was £5.4m at the end of 2019/20. This rate of increase however has grown significantly since that point with the deficit increasing by £6.2m in 2022/23 and forecast to increase by a further £6.6m in 2023/24. The deficit will therefore be in the region of £25.3m by the end of 2023/24. This has been driven by the number of EHCP's increasing from 1,765 at the start of 2020 to 2,857 at the end of June 2023.
- 11.2 With this being an issue for a number of councils across England the Council has been part of the Delivering Better Value programme. This programme estimates that without intervention the deficit on the High Needs Block will increase to over

£100m by 2028. At the end of 2021/22 the deficits across England amounted to £2.5bn and are increasing by £0.5bn per year.

- 11.3 There is currently a statutory override in place until March 2026, that ringfences this deficit and the advice is that this should not impact on the General Fund of councils, however the risk is that when this override finishes the General Fund will have to fund the deficit. The Council has and will continue to lobby that this is a DSG issue, and the impact should either be met from the DSG or from central government funding or reform, however this risk is real and cannot be ignored.
- 11.4 When the deficit was increasing at a modest amount annually the Council could realistically have put in a recovery plan to meet this over, for example, a similar time period to which it has built up, e.g., a decade, but with annual increases of £5-£7m this is not possible. Therefore, engagement is required across the sector and with central government departments on how this will be addressed post 2026.

## 12. Insurance Fund

- 12.1 The Council holds an Insurance Fund on its Balance Sheet that provides the financial resources required to cover existing and future claims. This Fund is externally reviewed every other year to ensure that the Fund is sufficient to meet future liabilities. This is informed by the level of insurance claims received, estimated claims based on events that will have happened, but claims have not been made, and potential claims in future years.
- 12.2 During the current year the Council has conducted a procurement exercise in respect of its insurance cover. This has led to an increase in the premiums to be paid of 34%. This has a direct impact on the Insurance Fund, reducing the resources available to fund the costs of claims. This will also need to feed into the next review of the Fund in April 2024 and the potential implications will need to be reflected in this next three-year budget plan.

## 13. Debt/Borrowing

- 13.1 Members will recall from the Treasury Management Strategy approved in March 2023 that over the last decade, due to the prevailing market conditions, the Council has chosen not to undertake any long-term borrowing to support its capital expenditure. This is with the exception of the purchase of the Strand Shopping Centre and some other nominal amounts. The Council has instead chosen to temporarily fund capital expenditure by internally borrowing resources from its cash balances.
- 13.2 When long term interest rates (which determine interest payable on new long-term loans) are significantly higher than short-term interest rates, and this situation is expected to prevail for the foreseeable future, then a policy of internal borrowing is appropriate as it minimises the net cost of interest payable by the revenue budget over the medium-term. A policy of internal borrowing also reduces the credit risk faced by the Council.
- 13.3 When the Council's cash balances have reduced to levels such that it can no longer internally borrow (and this will be impacted by the High Needs Deficit), the Council will need to take advice from its treasury management advisor, Arlingclose, on the appropriate borrowing strategy. This will be reported to Budget Council and Audit and Governance Committee.

- 13.4 At 31 March 2023 the Council had £133.694m of external borrowing (loans advanced from the Public Works Loan Board (PWLB)) and in the region of £90m of internal borrowing.
- 13.5 The advice from Arlingclose is that the Council should continue with its existing policy of internally borrowing rather than undertaking significant new long-term borrowing to repay the internal borrowing for as long as it is possible. The capital financing budget for the Council will therefore reflect this policy. Officers will, however, continue to liaise with Arlingclose on this issue and should the advice received change Members will be advised accordingly.