

Financial Management 2024/25 to 2027/28 – Medium Term Financial Plan 2025/26 to 2027/28

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| Date of meeting: | 7 November 2024 14 November 2024 |
| Report to: | Cabinet Council |
| Report of: | Executive Director – Corporate Services and Commercial |
| Portfolio: | Corporate Services |
| Wards affected: | All |
| Included in Forward Plan: | Yes |
| Is this a key decision: | Yes |
| Exempt/confidential report: | No |

Summary:

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

1. The update to the Medium-Term Financial Plan (MTFP) for 2025/26 to 2027/28 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 2025/26 to 2027/28 and any assumptions made.

Council is recommended to: -

- 2) Approve the updated Medium-Term Financial Plan for 2025/26 to 2027/28 and any assumptions made.

1. The Rationale and Evidence for the Recommendations

In February 2024 Council approved a one-year budget plan for 2024/25. As part of this report, an indicative budget gap of £19.2m for 2025/26 to 2026/27 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 2027/28. 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.

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 2025/26 -2027/28 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 2024/25 provided no indication of funding that will be made available for 2025/26 and future years. It remains critical however 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. The change in Government in July 2024 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.
- 1.4 The Chancellor announced the Autumn Budget on 30th October 2024. Although announcements relating to local government funding 2025/26 were made, this was at a national level, so no detail was available. Officers have made an initial assessment of the potential implications for Sefton, and these are included in the MTFP update below. As with previous years the full detail of the Local Government Finance Settlement for 2025/26 is expected at council level just before Christmas 2024, although a Local Government Finance policy statement is expected before the end of November which should provide more details on the measures announced in the Autumn Budget Statement. The Chancellor has previously announced that there will be a three-year Comprehensive Spending Review in late 2025 which will provide indications of local government funding in 2026/27 and beyond.
- 1.5 A MTFP update for future years was included within the Budget report in February 2024 and this report provides Members with the latest information available to support 2025/26 to 2027/28 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 14 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 2024/25 the Council continues to face significant challenges driven by the conditions in the national economy, especially the continued pressure within the demand led budgets of Adult Social Care and Children's 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 budget monitoring reports for 2024/25 have considered these in detail, with Children's Social Care and Home to School Transport again being prominent and key pressures during the year. Whilst these maybe common issues across the sector it is critical that Sefton addresses these and when sustainable budgets are agreed and set they are delivered as the previous years' calls on reserves to offset these two areas is no longer an option in the context of the financial sustainability of the Council.
- 2.4 The challenges facing the Council over the coming three years are likely to be equally as significant as those of recent times, with demand for services rising exponentially. At present over 70% of the Council's revenue budget is allocated to Adults and Children's Social Care plus Home to School Transport (with this budget having increased from £8.5m in 2021/22 to £14.5m in 24/25). 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 Council's new 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 February 2024, 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 Executive Director of Children's Services working collaboratively on the management of the in-year position and longer-term budget plan. This will continue over the course of this budget planning process, will take full account and will continue to be aligned to the Improvement Plan and will 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 2024/25 provided no information to support financial planning for 2025/26 and future years. The Chancellor's Autumn Budget Statement provided some information on local government funding for 2025/26 but funding beyond that point won't be known until the Government announces its three-year Comprehensive Spending Review in late 2025.

2.8 Whilst the funding that will be made available from central government remains difficult to forecast, the financial environment the Council operates within at present is equally difficult to navigate and is extremely volatile, and this is reflected in 18 councils across the country now in receipt of 'exceptional financial support'. This is reflected in:

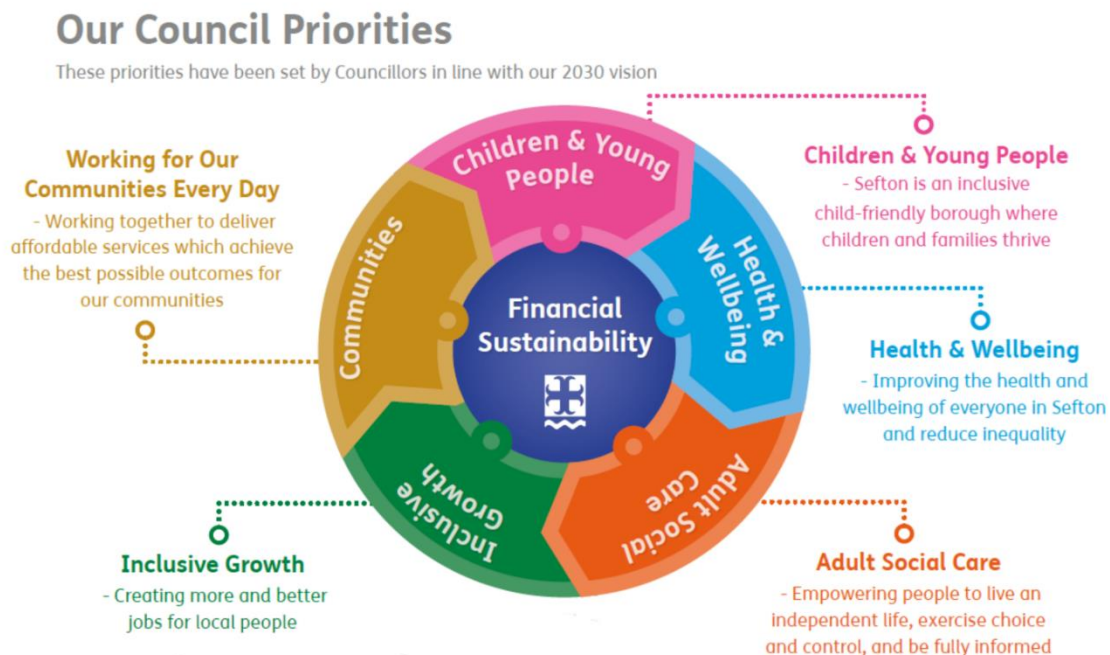
- Despite inflation now being between 2% and 3%, due to the issues of the last three years, there is now inherent cost pressure from inflation of over 20% built into the current costs of the Council for which additional funding was not made available.
- Continued cost pressures relating to Adult Social Care and Children's Services including Social Care. The demand for, and cost of, social care and home to school transport continues to increase exponentially across both adults and children's services, far outstripping historical funding allocations.
- 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 to date- the new government has promised this will be the subject of review but clearly this won't be possible to inform 2025/26 so may impact later in the three-year cycle,
- 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 would be set up until 2024/25 was confirmed in 2022. The policy is that council tax could increase by 2.99% per annum and a further 2% can be levied for Adult Social Care each year. This was reflected in the Spending Power calculation for each council. There is uncertainty however as to whether the new Government will continue or revise this policy.
- 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- Corporate Plan and Transformation Plan

2.10 The Council, in approaching this three-year budget cycle, will do so in the context of the delivery of the refreshed Corporate Plan, and will use its new Transformation Plan as the delivery vehicle for investment and savings. The Council's priorities, which will be reflected in the Three-Year Budget Plan, are illustrated in the following diagram:

Council Priorities



Outcome and Key Issues arising from the Autumn Budget Statement

2.11 On 30th October 2024, the Chancellor of the Exchequer made the Autumn Budget Statement, which included a number of announcements relating to local government funding for 2025/26.

- Core Spending Power for local government would increase by around 3.2% in real terms.
- This will include inflationary increases in locally retained Business Rates and Council Tax flexibilities. Whilst there was no additional detail in what Council Tax flexibilities means, it is estimated that this will equate to a 5% increase in Council Tax if Core Spending Power is to increase by 3.2% in real terms. It is also unclear whether referendum principles will continue, or whether councils will have total flexibility to increase Council Tax.
- As part of the increase in Core Spending Power, there will be an additional £1,300m grant funding made available to councils. Of this, at least £600m is new grant funding for social care, with the balance for other pressures. It is estimated that, using previous allocation methodologies, Sefton would receive in the region of £7.5m. This assumption has been built into the MTFP update below.
- Local authorities are also expected to receive £1,100m of new funding in 2025/26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from January 2025. However, the amount each local authority will receive going forward isn't certain (although exceptionally for 2025/26 the Government will guarantee that if income isn't in line with a central estimate, then it will provide top-up funding during the year). Also, it is uncertain as to what additional costs will be incurred by the Council to improve recycling outcomes. The potential additional funding has therefore not currently been included in the MTFP update.

- Funding of £1,000m will be made available to extend the Household Support Fund and Discretionary Housing Payments into 2025/26.
- An additional £233m will be made available to fund homelessness pressures. As with existing funding, the allocation received by the Council will be added to the Homelessness budget.
- A £1,000m uplift to Special Educational Needs and Disability (SEND) and Alternative Provision funding. This will be part of the Dedicated Schools Grant funding.
- It has also been confirmed that funding has been set aside to protect local government from our changes to employer National Insurance Contributions, and the impact they will have on their direct staffing costs.

2.12 The Government have also stated that they will update and improve the approach to funding allocations within the Local Government Finance Settlement by redistributing funding to ensure that it reflects an up-to-date assessment of need and local resources. This will be a long-term programme of recovery and reform which will start with a deprivation-based approach in 2025/26 with additional funding targeted to the places that need it most. This approach has long been requested by local authorities in the Liverpool City Region in their submissions to Government. More detail will be made available when the Local Government Finance policy statement is published later in November. However, the impact this will have on the funding available to Sefton will only become known when the Provisional Local Government Finance Settlement is announced in late December 2024.

Updated financial Position 2025/26 to 2027/28

2.13 As previously mentioned, the Council has over the last 14 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 has been compounded by the unprecedented issues within the Children's Services budget in recent years which have led to £23m of reserves and balances being used to fund pressure in this area in addition to the £32m of investment that has been made.

2.14 The Budget Report approved in February 2024 set out an estimated net funding gap over the period 2025/26 to 2026/27 of £19.2m, 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 including information from the autumn statement. 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.

2.15 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.

2.16 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.
- Funding the High Needs Deficit
- Demand led pressures relating to Adult Social Care and Children's Social Care; and
- Impact of regeneration and other Council sponsored major developments.

2.17 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 £40.630m (excluding any potential increases in Council Tax and savings previously approved by Members). This is summarised in the following table:

Table 1: Overall Funding Shortfall over MTFP period 2025/26 to 2027/28

| | 2025/26 | 2026/27 | 2027/28 |
|---|---------------|---------------|---------------|
| | £'m | £'m | £'m |
| Investment: | | | |
| Home to School Transport- growth in demand | 3.200 | 1.600 | 1.600 |
| Additional investment in Transformation, Corporate Landlord and Corporate Support | 1.481 | 0.000 | 0.000 |
| Growth Programme (indicative net additional costs and phasing) | 0.436 | 1.346 | 1.208 |
| Total Investment | 5.117 | 2.946 | 2.808 |
| | | | |
| Inflationary Pressures: | | | |
| Provisions for Pay, Contract Inflation, etc. | 6.850 | 5.950 | 5.950 |
| Assumed increase in Care Provider costs re. ASC | 5.500 | 5.500 | 5.500 |
| Assumed increase in Care Provider costs re. CSC | 1.250 | 1.250 | 1.250 |
| Assumed increase in Home to School Transport | 0.300 | 0.300 | 0.300 |
| Energy Costs – assumed permanent increase | 1.000 | 0.000 | 0.000 |
| External Audit costs | 0.225 | 0.000 | 0.000 |
| Total Inflationary Pressures | 15.125 | 13.000 | 13.000 |
| | | | |
| Other MTFP Changes: | | | |
| Council Tax Base | -1.320 | -0.500 | -0.500 |
| Car Parking – permanent loss of income | 0.500 | 0.000 | 0.000 |
| Academisation – permanent loss of income | 0.690 | 0.210 | 0.000 |
| Insurance – increased contributions to the Fund | 2.100 | -1.100 | 0.000 |
| Loss of investment income due to High Needs Deficit | 2.000 | -2.000 | 0.000 |
| ICT Refresh | 0.100 | 0.000 | 0.000 |
| Provision for In-Year budget overspends | 0.000 | 3.000 | 0.000 |
| Impact of Budget Decisions in Previous Years | -0.500 | -0.500 | -0.500 |
| Total Other MTFP Changes | 3.570 | -0.890 | -0.763 |
| | | | |
| Additional Funding: | | | |
| Social Care Grant | 0.000 | 0.000 | 0.000 |
| Services Grant | 0.454 | 0.000 | 0.000 |
| New Homes Bonus | -1.250 | 1.250 | 0.000 |
| Settlement Funding Assessment / Business | -2.000 | -2.000 | -2.000 |

| | | | |
|--|----------------|---------------|---------------|
| Rates Baseline | | | |
| Estimate of Additional Funding announced in the Autumn 2024 Budget Statement | -7.500 | 0.000 | 0.000 |
| | -10.296 | -0.750 | -2.000 |
| | | | |
| Revised MTFP Funding Gap excluding Council Tax and budget savings | 13.516 | 14.306 | 12.808 |
| | | | |
| Total MTFP Funding Gap | | | 40.630 |

2.18 As part of the budget setting process for 2024/25, in February 2024 Budget Council agreed a number of savings that would be achieved from 2025/26 and in future years. The impact of these savings is shown below:

| | 2025/26 | 2026/27 | 2027/28 |
|---|---------------|---------------|---------------|
| | £'m | £'m | £'m |
| Impact of Budget Savings agreed February 2024 | -2.465 | -4.115 | -0.263 |

2.19 It should be noted that this position assumes that no additional rightsizing of budgets will be required on an annual basis. This assumption is critical in developing next year's budget. The table above includes provision for rightsizing the home to school transport budget for the pressure identified at mid-year review in the current year (as reported elsewhere on this agenda), however it does not include provision for any structural overspending in 24/25 in Children's Social Care. This budget was rightsized, had further investment and then had substantial budget re-alignment to reflect a new staffing structure that is to be implemented in-year based on increased investment in that structure and a reduced number of residential placements that would reduce that budget. This reduction has not been experienced hence the budget pressure. Therefore, in November 2024 a fundamental review of the budget and what is required for 2025/26 will be made by the Chief Executive, Executive Director of Children's Social Care and Education and s151 officer and this may require an updating of the MTFP figures reported.

2.20 The other key point is in respect of Adult Social Care- the strategy within the service is Better at Home and this is reflected in the transformation planning and figures and savings within the MTFP. As can be seen in the current year's budget monitoring, residential numbers and costs are increasing hence the budget pressure being experienced- a review of the current and forecast performance data for the next two years will be required alongside the transformation programme in order that robust information can be used for budget planning- again this will be done during November 2024. Both of these issues will be critical to budget planning to ensure the budget reflects the latest forecast information produced by the service and alignment with the transformation plan.

2.21 Within this position it can be seen that there are £52m of Council wide cost pressures across the three years including the following:

- Children's Social Care – additional resources of £3.750m to funding inflationary pressures.
- Home to School Transport - additional resources of £7.300m to fund inflationary pressures (£0.900m) and potential increases in demand for the service (£6.400m).
- Adult Social Care – additional resources of £16.500m to fund the net cost of inflationary provider fee increases.
- Other Inflationary Pressures – additional resources of £19.975m relating to the additional costs of funding pay awards, pension contributions, contract inflation and levy increases.

- o Growth Programme – additional resources of £2.990m to fund investment in Council assets.

2.22 The funding gap presented of £40.630m is **before** taking into consideration any additional locally generated income in the form of Council Tax which is currently estimated to raise an additional £26.522m subject to Member approval (and assuming the referendum principles from 2023/24 and 2024/25 remain in place) and savings previously approved by Members.

2.23 The previous referendum principles allowed for a 2.99% increase in the general Council Tax rate plus a 2% Adult Social Care Precept, 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. As mentioned in paragraph 2.11, the Autumn Budget Statement didn't specifically refer to referendum principles. However, it is assumed that the council tax flexibilities included in the calculation of the increase in Core Spending Power includes an increase of 5%. The resources an overall 4.99% Council Tax increase could potentially generate, is shown below:

Table 2: Potential Resources generated from Council Tax Increases 2025/26 to 2027/28

| | 2025/26 £'m | 2026/27 £'m | 2027/28 £'m | Total £'m |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Core increase (2.99%) | -5.056 | -5.323 | -5.513 | -15.892 |
| Adult Social Care Precept (2.00%) | -3.382 | -3.561 | -3.687 | -10.630 |
| Total | -8.438 | -8.884 | -9.200 | -26.522 |

2.24 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.

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

2.26 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 taking full account of the transformation programme.

2.27 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. This is becoming increasingly challenging, and has been especially so in Children's Services which, as outlined earlier in this report, has seen additional investment over the last four years of £32m. This has been based on the service's view of the resources required to deliver the Improvement Plan and also to reflect demand and yet despite this, overspending has resulted in an additional £23m of reserves and balances being utilised. 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. 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.

- 2.28 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.
- 2.29 The Council's new Corporate Plan sets out the Council's ambition, which will guide the development of the budget package to ensure it is closely aligned to these priorities. These are:
- Children & Young People – Sefton is an inclusive child friendly borough where children and families thrive.
 - 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
- 2.30 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 2025 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 11 February 2025, Cabinet on 13 February 2025, and Council on 27 February 2025.

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 2025/26 to 2027/28 in the final quarter of 2024.
- 5.2 Feedback will be shared with members and inform the budget package put forward to be agreed by Council on 27 February 2025.

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, and with some of these being in receipt of exceptional financial support. 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 2024 based on data from financial year 2022/23.
- 6.3 From this work there are two key issues for the Council. Firstly, the Council has a relatively high risk due to the high amount (in percentage terms) of its budget it spends on its two largest demand led services, e.g., Adults Social Care and Children's Social Care. 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 now has an appropriate level of General Fund Balances but has a low level of earmarked reserves, and therefore total reserves, compared to other councils. Critically though the Council cannot continue to overspend on key services, such as Children's Services, as it has done in the last three years, hence the principle of all budget assumptions being signed off by services in addition to confirming that they will work within the approved cash limit approved by Members. It was agreed in the last budget report, that following the substantial increase in General Fund Balances that if these were to be used for budget pressure they would need to be repaid in the next financial year- this principle is common in the sector and must be adhered to.
- 6.5 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 14 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 February 2024 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 February 2024.
 - 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 2025/26, the Authority is planning capital expenditure of £71.484m. The table below identifies the scale of planned Capital expenditure over the medium-term.

Table 3: Estimate of Capital Expenditure over MTFP period 2025/26 to 2027/28

| Capital Expenditure | | | | | |
|----------------------------|-------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| | 2022/23 £m Actual | 2023/24 £m Actual | 2024/25 £m Estimate | 2025/26 £m Estimate | 2026/27 £m Estimate |
| | | | | | |

| | | | | | |
|-------|--------|--------|--------|--------|--------|
| TOTAL | 38.705 | 40.937 | 80.905 | 71.484 | 33.467 |
|-------|--------|--------|--------|--------|--------|

- 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 The Southport Town Deal projects – which were approved by the former 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.
- 7.8 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, and a fundamental review of that business and its medium-term financial plan has been undertaken and will be presented to Cabinet in December 2024. Similarly, Sandway Homes has and is being impacted by cost of construction, supply chain issues and the timing and pace of sales of homes due to interest rate increases in the last three years- again a comprehensive report will be presented to the Cabinet meeting in December 2024.

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 2024; and
 - Finalise a budget package with the draft Budget Report to be considered in February 2025 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 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 February 2024.
- 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 11% of the net revenue budget. Therefore, General Fund Balances of around £30m would be considered prudent as a target for March 2025.
- 10.3 As at 31 March 2024 the Council held General Balances of £16.300m and Earmarked Reserves of £32.680m (£15.590m of which relates to unutilised Revenue Grants and Contributions). The budget for 2024/25 included a contribution to General Balances of £13.977m so balances are budgeted to increase to £30.277m by 31 March 2025. This amount of General Balances is in line with 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. This report provides for a further £3m being added to balances each year from 2026/27 with the aim being to reach £40m within the next 4 years. (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 It can be seen from the mid-year review that balances of over £6.5m will be required to be used due to forecast overspending in 2024/25. Based on the Council recommendation, if this forecast materialises then these will need to be replenished within this MTFP period- this aligned to any structural pressure from Children's Services from 2024/25 into 2025/26 are two key issues which require immediate resolution as part of budget planning. It can be seen that pressure within the overall budget is significant therefore consideration will be given to services that require balances to meet in-year pressure repaying these where appropriate based on transformation delivery (i.e., savings are delivered from budgets previously under pressure) or demand reduction.
- 10.5 In May 2023 DLUHC provided an update on levels of reserves and balances held by councils and whilst the Council's General Fund Balances are now higher than the median level across the country which is positive (at 11% vs 6%), 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 only a low number of Earmarked Reserves could be redirected to support the Council's wider budget position should a financial shock be experienced. As such it is important that the General Fund Balances are at a level that compensates for this lower level of Earmarked Reserves.

10.6 As part of this budget setting process the Council will again 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 In 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 £19.3m in 2023/24 and forecast to increase by a higher amount in 2024/25. The deficit will therefore be over £57m by the end of 2024/25. This has been driven by the number of EHCP's increasing from 1,765 at the start of 2020 to 3,655 by October 2024.

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. A recent survey across the country has suggested that at the end of 2027/28 deficits across England could amount to £8bn with the annual figure rising exponentially.

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 up to £20m per annum 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. **Debt / Borrowing**

12.1 Members will recall from the Treasury Management Strategy approved in February 2024 that over the last decade, due to the prevailing market conditions, the Council has previously 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.

12.2 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.

12.3 At 31 March 2024 the Council had £138.459m of external borrowing (loans advanced from the Public Works Loan Board (PWLB)) and in the region of £90m of internal borrowing.

12.4 However, the Council's cash balances have now reduced to levels that it can no longer internally borrow – this is as a direct result of the High Needs Deficit which has to be financed. This will also require additional borrowing to be taken out, reversing some of the internal borrowing previously used. In addition, the Council will need to borrow for the Growth Programme and for the part funding of major capital schemes. The Council will take advice from its treasury management advisor, Arlingclose, on the most appropriate borrowing strategy. This will be reported to Budget Council and Audit and Governance Committee.

2. Financial Implications

All financial implications are reflected within the report.

3. Legal Implications

None

4. Corporate Risk Implications

This report highlights the financial position of the Council in 2025/26 to 2027/28, which supports its Financial Sustainability in 2025/26 and future years.

5 Staffing HR Implications

None

6 Conclusion

The report indicates that a total budget gap of **£40.630m** is currently forecast for the period 2025/26 to 2027/28, prior to decisions about Council Tax, savings previously approved by Members and any further budget savings being made. However, there is considerable uncertainty around some of the assumptions made, particularly around government funding in 2026/27 and 2027/28.

Alternative Options Considered and Rejected

None

| |
|---|
| Equality Implications: There are no equality implications. |
| Impact on Children and Young People: The report highlights the additional resources included within the Medium-Term |

Financial Plan relating to services provided for Children and Young People.

Climate Emergency Implications:

The recommendations within this report will have a **Neutral** impact.

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Services and Commercial is the author of this report (FD7834/24).

The Chief Legal and Democratic Officer (LD5934/24) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

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 for inspection.