

Robustness of the 2025/26 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25

Date of meeting:	11 February 2025 13 February 2025 27 February 2025		
Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council		
Report of:	Executive Director of Corporate Services and Commercial		
Portfolio:	Corporate Services		
Wards affected:	All wards		
Is this a key decision:	Yes	Included in Forward Plan:	Yes
Exempt/confidential report:	No		

Summary:

To comply with statute, the Chief Financial Officer is required to report to Council prior to the approval of the budget and the setting of the Council Tax, to give assurance that the budget is robust and that there are adequate reserves and balances. The report is based on the proposals presented at this meeting.

Recommendation(s):

The Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the following issues:

- a) An opinion as to the robustness of the estimates made and the tax setting calculations; and
- b) The adequacy of the proposed financial reserves.

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2025/26.

1. The Rationale and Evidence for the Recommendations

This report has been prepared in accordance with the statutory requirements of the Local Government Act 2003 which requires the Authority to report to Members on the robustness of budget estimates and the adequacy of proposed reserves.

2. ROBUSTNESS OF BUDGET ESTIMATES

Current Context

- 2.1 The Budget for 2025/26 has been developed over the last nine months and builds on the Three-Year Medium-Term Financial Plan that was approved by Budget Council in February 2024, and which was then updated in November 2024 following the first Budget Statement of the new government.
- 2.2 This three-year plan then took account of the central government policy statement that was released on 28 November 2024 and the provisional local government finance settlement that was released on 18 December 2024.
- 2.3 The starting position of any budget is always to take account of what is happening in the current year and as at the end of November 2024, the Council is reporting a net overspend of £17.8m on its General Fund (excluding mitigations) which is made up of the following three areas: -
 - Pressure on its Education Travel Support budget.
 - Pressure in Adult Social Care; and
 - Pressure in Children's Social Care.
- 2.4 The most significant pressure has arisen within the Children's Social Care budget. A new staffing structure was approved by members and has now been implemented, however expensive agency staff have been required to remain in place during implementation and to cover vacancies due to the structure being larger than the previous arrangement. The largest pressure however has come from the residential placement budget. The budget for 2024/25, again based on aligning the MTFP with the Service's Improvement Plan and advice from the Service, was based on the number of residential placements reducing from 80 to 65. The actual position is that numbers have increased to 92, a difference to the budget of 27 placements. With an average cost of nearly £6,000 per annum, which is currently increasing, this has led to a pressure of £6.9m. From work undertaken across the Merseyside and Greater Manchester regions to provide information in advance of the Autumn Budget Statement, it is clear that for all councils the financial pressure within children's services is acute for these reasons and therefore this is key for budget setting for 2025/26.
- 2.5 In addition, Adult Social Care has experienced significant budget pressures in 2024/25 due to increased demand, increased costs, etc. This is also a national issue facing most local authorities with responsibility for social care, with the Council addressing this issue through its Transformation Programme project "Better at Home".
- 2.6 Similarly, the pressure in respect of Education Travel Support reflects the demand increase in Education Excellence arising from SEND and again is another national issue as reflected in the responses to the consultation on the local government finance settlement.

- 2.7 All remaining services within the council are reported balanced budget positions. The process for budget setting continues to be reviewed to ensure it is robust and estimates especially in respect of demand led budgets reflect both experience in the sector and are signed off by the respective Executive Directors as that is where the expertise, ownership and accountability lies.
- 2.8 Members will recall that for 2024/25 a full review of the Council's reserves strategy was undertaken. This resulted in a revised assessment of the required level of General Fund Balances being required, together with approval of the principles that should be followed. As a result, General Balances were increased from £16m to £30m, with a commitment to increase these further over the next three years to support financial sustainability- this level and approach was benchmarked against other good councils and also reflected the low level of Earmarked Reserves held by the Council.
- 2.9 With the forecast level of overspend of £17.8m in 2024/25, a remedial plan has been put in place that will deliver a contribution of £5.5m from a review and repurposing of Earmarked Reserves, however this means there will be a call on General Balances of £12.3m in the year. This report will discuss the impact of this and the three-year strategy to increase the balances held.
- 2.10 With a new government being in place from July 2024, there was clearly going to be a change in approach to the funding that would be made available to councils for 2025/26. As stated, the Autumn Budget Statement in November 2024 provided an initial assessment of the funding that would be available to the sector, with further detail being provided in the policy statement of 28 November 2024. This has aided financial planning over the last 3-4 months with the Local Government Finance Settlement released on 18 December 2024 providing the detail of the funding that will be available to the Council, with this reflected in the budget report.
- 2.11 It has been widely reported during the last year that there are a number of councils struggling with financial viability and sustainability, with 19 councils as at November 2024 being in receipt of exceptional financial support from central government, and that number expecting to increase in the coming months. As reported last year, this increased number now reflects councils who, rather than being in distress due to investment activity, cannot meet in year costs or set balanced budgets that will provide core services due to increased cost and demand. Over the last decade the fact that funding has not aligned to this cost or demand means councils have been using increased levels of reserves and balances to not only set budgets but also meet in year financial pressure, thus reducing resilience and compromising financial sustainability. These issues reflect a lack of resources within the sector as opposed to poor financial management, as reported by both the Local Government Association (LGA) and the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.12 In advance of the Autumn Statement, the LGA submitted to government its informed assessment that substantial additional investment was required in the following areas in order to provide the required services to residents and also maintain financial sustainability in the sector: -
- Children's Social Care.
 - Adults Social Care.
 - SEND.
 - High Needs Deficit; and
 - Homelessness.
- 2.13 For Sefton, it can identify with each of these pressures, and they are each a feature of the budget report that is on this agenda. The pressure from each of these areas is substantial

and further re-enforces the need for the Council to replenish its General Balances that have been used over the last three years in order to increase financial resilience and also provide protection against any financial shocks that may arise.

Development of Core Council Budget

2.14 In developing the core Council budget due consideration has been given to the following: -

- Engagement and ownership of the budget and its planning by the Council's Executive Leadership Team and Strategic Leadership Board.
- Ongoing financial pressure from 2024/25 that will continue in 2025/26.
- Additional required budget growth driven by demand and inflation that is required in key services.
- The funding that will be made available to the Council via central government as detailed in the Local Government Finance Settlement, in addition to that which can be raised through Council Tax.
- The deliverability of previously approved budget / savings proposals and those arising from the Transformation programme that are required in order that a balanced budget can be set; and
- The level of Earmarked Reserves and General Balances that the Council should hold.

2.15 To enable the development of a budget package for Member approval, continual budget sessions have been held with all Executive Directors. This has focussed on:

- Review of current in year budget position and future years' impact.
- Potential financial pressure for 2025/26 to 2027/28 from demand or cost increases; and
- Savings proposals to support budget development.

This engagement has proven to be valuable with each budget assumption for 2025/26 in the budget report being signed off via this process.

2.16 In respect of Children's Social Care, Members will recall that a five-year improvement plan was developed to align with the services improvement plan. Throughout the year, the Executive Director of Children's Social Care and Education (Director of Children's Services), Chief Executive, s151 Officer, Deputy s151 Officer and Head of HR and Workforce have met monthly, and bi-monthly with the relevant Cabinet Members, to track progress on the budget, review assumptions, provide advice and support and take decisions that align with the improvement plan - the outcome from those sessions is reflected in this budget package and the proposed in-year budget has been signed off as deliverable by the Executive Director. As stated earlier, the key element within this is the residential budget.

2.17 In the current year, it was advised that the number of residential placements would reduce from 80 to 65, this was reflected in the budget realignment that took place for the year and the fact that an element of the new staffing structure would also be supported by funding that would be released- with the current number of children in residential placements being 92, detailed work has been undertaken to develop the estimate for 2025/26. From this work the following principles have been set out by the DCS and are reflected in the budget presented:

- The number of children placed in a residential care setting will reduce as children who turn 18 aren't replaced.
- Other children who move from residential care into another care setting are replaced.
- The number of Unaccompanied Asylum Seeker Children in residential care will increase across the year.

2.18 In respect of Adult Social Care, this is a gross budget of £192m in 2024/25 and is increasingly complex- as with Children's services monthly budget sessions are held between the Executive Director of Adult Social Care, Health and Wellbeing, the Chief Executive, s151 Officer and Deputy s151 Officer to review in granular detail, in year pressure, delivery of savings, emerging pressure, work required to inform potential provider fee increases for 2025/26 and further additional demand- the outcome of those sessions is reflected in this budget package and the proposed in-year budget has been signed off as deliverable by the Executive Director. Within this, the two key issues are in respect of demand and increase in provider fees. The detailed work undertaken by the Service is reflected in this budget and it is essential that the delivery of these assumptions takes place.

Provision of £7.7m has been built into the budget for 2025/26 to fund increases in provider fees- this would equate to an average 6% increase and would mean that all of the Adult Social Care Precept and 70% of the additional Social Care Grant (that is provided to support Adult Social Care and Children's Social Care) would be allocated to this. The current budget pressure from 2024/25 is £6.3m. Part of this pressure relates to the forecast underachievement of savings approved for 2024/25 of £1.9m and the non-achievement of proposed mitigations relating to Supported Living of £0.7m. The assumption is that these savings will be achieved in 2025/26 so that the residual budget pressure needing to be met will be £3.7m – this has been built into the budget for 2025/26. The service is also making £2.6m of savings in 2025/26 and this will support investment in staff and funding of other parts of the service, e.g., pay award etc.

2.19 A similar process has been undertaken in respect of Education Excellence and SEND- the demand pressure in this area has increased substantially each year and is reflected in financial pressure in respect of Education Travel Support, additional staff being required to process EHCP's and an increase in the High Needs Deficit. The budget assumptions in respect of this Service have been the focus of stringent review and the proposed in-year budget has been signed off as deliverable by the relevant Assistant Director which takes account of increased cost and demand and the impact of a new approach in service delivery that will offset some of this financial pressure. However, further work will be required to deliver the Service's staffing budget within the resources available.

2.20 These three budgets reflect the greatest financial risk to the Council, not due to financial management arrangements but due to need, demand, volatility and potential cost increases. Every effort has been made to understand each of these for 2025/26 and if there are any variations these will need to be met with in-year remedial action plans across the Council. In addition, and as reported last year, it is essential that where decisions are within the control of officers, and have been reflected in the proposed budget, that they are adhered to, for example assumptions around staffing levels. As these budgets will account for nearly 75% of the Council's Net Cost of Services budget in 2025/26, if there are budget variances there is no scope for other services to meet these, hence financial discipline, informed budget and business decisions and financial awareness will be critical in this next year as there are no surplus resources available.

2.21 The outcome from this work throughout 2024/25 and the comprehensive review and updating of all existing budgets and Medium-Term Financial Plan assumptions is reflected in the budget report. It can be seen from this that a balanced budget cannot be met with the

funding allocated by central government when added to the Council Tax options available to the Council. As such a set of budget savings proposals have been identified for approval in the Budget Report- as stated these have been signed off as being deliverable by Executive Leaders and the Strategic Leadership Board and the budget reflects that.

- 2.22 As occurs each year, in developing this budget, all Medium-Term Financial Plan assumptions have been reviewed and are considered prudent. However, there are some where the final sum is yet to be identified, for example in relation to the local government pay award - these will be monitored, and any variation reported to Members in due course. With the prevailing economic conditions, the volatility that exists within the budget for next year cannot be underestimated, especially as additional central government financial support for 2025/26 does not reflect the full implications of the growth pressure nor inflation requirement facing the Council. As a result, the budget will need proactive management to contain expenditure within the approved levels.
- 2.23 Members will recall that in terms of understanding the pressure from the current year that will require funding in the new financial year a position is taken as at the end of November. This position may vary between the time of establishing the budget and year-end, especially in respect of Adult Social Care and Children's Social Care.
- 2.24 For 2025/26, the Council has received a one-year financial settlement with the new government detailing that following a review of the local government finance system a three-year settlement will follow that will cover 2026/27 to 2028/29. The Council returned to multi-year budgeting from 2024/25, and future three-year settlements will support this and enable service delivery and financial stability, resilience planning and management.
- 2.25 As can be illustrated in this section of the report, the budget has been developed by the Executive Leadership which supports the objective of ensuring that the budget presented for Member approval is both robust and has ownership.

Maintaining Service Delivery

- 2.26 As has been reported extensively both within the sector and within Sefton, the scale of the budget shortfall and the demand and cost increases that the Council has faced over the last fourteen years has led to both service reductions and a transformational approach to all areas of activity in order to ensure that the Council's core purpose that was derived from the Sefton 2030 vision can be delivered. For 2025/26, the key challenge faced by the Council will once again be in respect of its demand led budgets, especially Children's Social Care, Adult Social Care and Education Travel Support. Substantial budget growth to reflect the view of what funding is required to deliver these services and the ongoing pressure being faced has gone into each of these areas for next year and as they make up the largest part of the Council's budget it is critical that these services are managed within the resources available.
- 2.27 As with previous years, as a result of this prioritisation, all other remaining Council services are not receiving growth, inflation on core contracts and budgets, with some required to deliver savings. As a result, the pressure in these areas both operationally and financially will increase and again will require robust financial management and reporting to deliver services within the resources available.

Inflation and Annual Cost Increases

- 2.28 The Council, as in previous years, has provision for specific allocations to provide funding for contractual and other inflationary pressures such as annual pay increases. This reflects the latest information available having conducted a Council wide review of existing contracts and the likely impact of future pay negotiations. Within this budget package however there

continues to be no provision for general price inflation. Due to the severity of the financial challenge facing the Council, services will be required to manage any such pressure within their existing cash limits. The exception to this within the budget package is that provision has been allocated to support the increased cost of some ICT contracts- the cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets.

Financial Management

- 2.29 The Council has an embedded process with regard to its Financial Management, and its reporting strategy reflects the monitoring undertaken by the Executive Leadership Team, Strategic Leadership Board, budget holders and the central Finance Team. Monthly reports are considered by Departmental Management Teams and Executive Leadership Team and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue budget monitoring, with Cabinet and Council both receiving the annual Medium Term Financial Plan.
- 2.30 To support this approach, a continual training offer is available to all budget holders, schemes of financial delegation for each service are reviewed and where appropriate updated on a quarterly basis. The Council's Financial Procedure Rules were last updated and approved by Council in January 2025 following review by Audit and Governance Committee.
- 2.31 It has been reflected both within this report and also the wider budget report, that the level of financial risk facing the Council and indeed all local authorities is increasing significantly due to the ongoing pressure on demand led budgets and as a result of the economic conditions within the UK and that the budget estimates contained for the Council over this Budget Plan period reflect the Council's ambition to deliver services that align with its 2030 vision, core purpose and ensure that it remains financially sustainable.
- 2.32 In order to manage these risks and objectives, the Executive and Senior Leadership Teams and Members will need to monitor each element of the Council's budget and demand for services forensically, take decisions in accordance with the budget plan and in accordance with best practice in order that this risk can be mitigated as far as possible. Due to the level of risk that now exists within all areas of the Council's budget, but especially in Children's Services and Adult Social Care, this monitoring will be of even greater importance, as will the speed that decisions are made, in order to implement mitigating actions that will ensure financial sustainability. During 2024/25 additional senior financial management capacity was added to the Adult Social Care, Children's Social Care and Education Excellence teams to support this.

Medium Term Budget Planning and Transformation Programme

- 2.33 During 2024/25 the Council has approved a new refreshed Corporate Plan and a new Performance Management Framework. In addition, a new transformation programme has been developed, with financial sustainability at its core- the intention is that the programmes and projects within this will deliver financial sustainability and resilience to the Council with investment and savings deriving from this. The core elements of the programme are:-
- Better outcomes, sustainable services - Services for Children, Adult Social Care Better at Home, Social Housing, Cleaner Greener Borough;
 - Growth - redefining Place
 - Setting us up to Succeed - Corporate Landlord, Public Service Reform, Performance, Commissioning and Contract Management; and
 - Everyday excellence- services and support

CIPFA Financial Resilience Index and the CIPFA Financial Management Code

- 2.34 The financial risks facing the Council in 2025/26 and beyond have been set out within this report and the wider Budget Report and as would be expected after the last decade of underfunding and with the increased demand and cost of Council services, the severity of these risks continues to rise. This is similar for most local authorities.
- 2.35 Over recent years, it has been widely publicised that a number of these authorities have encountered real financial difficulties with some issuing s114 notices and others requiring other elements of government intervention and support. It is important that the Council learns the lessons from these experiences elsewhere to inform its own approach to decision making and financial sustainability. To support this, CIPFA produce both a resilience index and financial management code that aim to evaluate a council's financial resilience and ensure that financial management is of the required standard across the organisation.

CIPFA Financial Resilience Index

- 2.36 CIPFA developed its Financial Resilience Index and is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. As reported in previous years, there are 15 indicators which are compared to other local authorities - seven of these indicators relate to the level of reserves and balances held compared to net revenue expenditure, three relate to the proportion of expenditure on high-risk services (e.g., Adult and Children's Social Care) and five on the reliance of specific types of funding (Government Grants, Council Tax and Business Rates).
- 2.37 At this time, the Index has yet to be updated to reflect the position as at the end of 2023/24. Therefore, the comments below relate to the position as at the end of 2022/23 published at the beginning of 2024.
- 2.38 When compared to other metropolitan district councils Sefton is classed as a medium risk (this being a relative conclusion when the overall financial environment within which the Council is operating is considered) in relation to its budget flexibility, i.e., the proportion of its budget spent on high-risk services, where the ability to reduce overall expenditure on these services is less due to rising demand, is average compared to other local authorities. However, this is based on 2022/23 and there has been significant additional investment in the service since then and there are still significant challenges with Children's Social Care and the delivery of the improvement plan is critical. In addition, Adult Social Care is classed as medium risk compared to other local authorities which further limits budget flexibility.
- 2.39 Sefton compares favourably when compared to other metropolitan councils in that it is relatively less reliant on grant income and more reliant on Council Tax income as an overall percentage of its funding.
- 2.40 The Index shows that Sefton is at a higher risk of financial stress due to its level of reserves and balances at the end of 2022/23 being relatively low in comparison to other metropolitan councils. However, there has been additional investment in 2024/25 to address this which is considered benchmarking and learning from good councils. The index shows that the direction of travel over the previous three years, including an increase in General Balances, is positive. Unallocated General Balances are classed as medium risk whereas Earmarked Reserves are classed as high risk compared to other metropolitan councils. Therefore, it is important that an appropriate level of reserves is maintained to mitigate against this risk in line with the Reserves Strategy as detailed later in this report.

CIPFA Financial Management Code

- 2.41 In addition to the Financial Resilience Index, CIPFA have also developed a Financial Management (FM) Code. This FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities.
- 2.42 The Code is based on establishing Principles of Good Financial Management with these being translated into financial management standards. Each local authority has to then detail how it meets these standards and what improvements are required in order to ensure compliance.
- 2.43 The Council's Finance service completes an annual self-assessment of compliance with the Code that includes input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation. The output from the most recent review was presented to Audit and Governance Committee in June 2024 and this highlighted that many areas of good practice in financial management are evident across the organisation. An action plan to further improve compliance with the Code was also presented to Audit and Governance Committee and is available for consideration by the external auditor as part of their value for money assessment.

Management of Risk

- 2.44 The Council manages risk on an ongoing basis at all levels of the organisation. In doing so it has developed policies, processes and systems that reflect its internal governance arrangements and the constitution, these include Financial Procedure Rules, Contract Procedure Rules, and clear guidance on when professional advice should be sought, e.g., with regard to contracts. As far as possible this allows the Council to anticipate risks as they emerge. These processes are supported by the Council's Internal Audit and Risk Section, the annual review of Corporate Governance and the completion of the Annual Governance Statement.
- 2.45 Given these controls and processes, the likelihood of unanticipated budget issues has been reduced as far as possible, however as outlined in this document and the budget report, the financial risks facing the Council both in this year and future years continue to increase, especially as a result of the demand for core services where financial control of expenditure is sometimes limited. This is particularly the case for Children's Services and Adult Social Care. In the event that these have a material impact on the Council's budget, a remedial action plan will be required in year- this is becoming increasingly difficult to deliver therefore the role of Members in taking efficient and effective decisions informed by officer proposals will be key.
- 2.46 The Council, in addition to its monthly reporting process, now has an embedded process whereby it conducts, first quarter, mid-year and three-quarter year performance reviews that bring together finance, performance and risk information as set out in the performance management framework. These are designed to enable members and officers to gain assurance on the deliverability of a sustainable budget and visibility of any other emerging issues.

Capital Strategy and Strategic Investment

- 2.47 As part of the reform process of local government finance, the Council now receives a modest level of capital grant to support investment. This budget provides for the utilisation of this funding in 2025/26 and an indicative plan for future years.
- 2.48 The Council, as stated previously, has identified that its growth workstream is key to supporting its 2030 vision and core purpose in addition to financial sustainability. With the

reduction in capital resources that are available from central government, the Council will continue to explore opportunities and methods to generate funding to support these activities over the next 3-5 years. This approach is reflected in the budget report. The Council has been successful in gaining substantial central government funding via the Town Deal Fund for Southport and Levelling Up Programme for Bootle Town Centre / Strand. This provides the basis for investment to promote regeneration and will require proactive financial management due to the current financial environment- this focus will need to be on cost control, risk management, consideration of supply chain and understanding sensitivity analysis linked to inflation, cost and income streams in addition to ensuring that third party contributions to the planned capital works are secured. Both programmes have exposure to each of these to varying degrees and it is essential that the management arrangements have the right skill sets in to manage this. In addition, the Council must ensure sufficient capacity exists and all financial estimates are prudent and considered with Member reporting of any change undertaken in an expedient manner. In the event of any cost increase and where the funding available is not sufficient to meet this, then existing funding providers e.g. central government and the Liverpool City Region Combined Authority, will need to be engaged for additional support.

- 2.49 The Council, through its Treasury Management Strategy, uses a range of prudential indicators to manage and control the impact of these capital investment decisions. This will ensure that the risk and debt profile of the Council is appropriate based upon its financial standing and performance and that repayment is affordable.

External Advice

- 2.50 The Council is supported in its financial activities by its External Auditor, Grant Thornton and its Treasury Management Advisors, Arlingclose. Any material changes to Council policy, budget decisions or capital investment proposals will be undertaken in consultation with these organisations. Members will be aware that the value for money report from the previous auditor, Ernst and Young, has now been received by the Audit and Governance Committee for the years 2021/22 and 2022/23 and within this there was no concern as to the Council continuing to operate as a going concern and there was positive reporting of the approach to budget setting, financial management and financial reporting as referenced in this report.

3. RESERVES STRATEGY 2025/26

- 3.1 The Council holds a range of reserves that it uses and holds for different purposes. This report considers each in turn.

General Fund

- 3.2 The General Fund Reserve (General Balances) is the Council's primary reserve. It exists to provide the Council with a contingency against unexpected financial events or shocks which could otherwise undermine the Council's sound financial standing. General Balances should only be utilised to address short-term issues and should not be relied upon to finance ongoing budget deficits. As stated, if used in accordance with the governance arrangements approved at Budget Council in February 2024, reserves should be repaid and replenished in full in the next financial year.

- 3.3 Determining the level of General Fund Reserve forms a key part of the Council's medium-term financial strategy and is informed by an assessment of the risks presented by:
- State of the economy (and its impact on Council costs / funding).

- Knowledge of future changes to the Council's responsibilities and funding allocations.
- The inherent risk around demand and cost increases and the previous year's call on reserves.
- Specific risks relating to the delivery or changes in Council services.

3.4 In considering the level of General Balances that should be held the Council needs to give due consideration to both its Earmarked and General Fund Reserves- within Sefton when compared to other councils and at an absolute level it does not have a significant amount of Earmarked Reserves (total of £16m forecast for 31 March 2025, with no amounts now potentially available following the anticipated use of nearly £6m to partially fund the 2024/25 overspend). For the 2024/25 budget the Council recognised that it would need to invest in its General Balances and approved investment of £14m, which took the value into the current year to £30.3m. This sum was benchmarked and considered appropriate with further investment planned for future years. This reflected the increased risk in the sector and low level of earmarked reserves.

National Considerations

3.5 Impact of economic climate on Council costs - the current climate within the sector and being experienced in Sefton due to increased demand for key services and cost pressure will prove challenging in 2025/26 with the potential for substantial cost increases for goods and services procured or commissioned by the Council especially in respect of social care. In addition, there is the probability of further business closures, lower than normal income levels from both Council Tax and sales, fees and charges and a shortage of alternative funding sources from partners compared to current budget assumptions. As Council funding is now more dependent on the performance of the local business sector and the raising of Council Tax it is more exposed to the consequences of national and local economic conditions as the Budget Report reflects.

3.6 Potential changes in Government funding – the level of funding that it is anticipated that the Council will receive in 2025/26 reflects the Local Government Finance Settlement finalised in early February 2025. In addition, the Council has been notified of other grant allocations for 2025/26. These funding levels are included in the Budget Plan. Funding levels beyond 2025/26 are currently unknown, however the new government has committed to a fundamental review of local government funding in 2025 that will inform the next three-year settlement from 2026/27 - it is hoped that the metrics used will direct more funding to Sefton, however there is the risk that funding in some areas could be reduced, especially if population is used as a factor- the Council's reserves strategy will need to take account of this despite transition arrangements being promised.

Local Considerations

3.7 Planned changes in service delivery methods / contracts – The Council continues to review the way in which it delivers services in order to ensure best practice and value for money for its residents- this will be especially true in respect of Adult and Children's Social Care and Education Excellence in 2025/26. In addition, the Council's new Transformation Programme will propose significant changes as to how some services are provided. Combined, these will result in changes to working practices, commissioning relationships and governance arrangements. As these become embedded within the organisation this should reduce the risk to the organisation, however there is substantial short-term risk that needs to be allowed for.

- 3.8 Impact of Rising Demand for Services – This is the biggest risk that the Council faces and despite the budget setting process being robust in previous years with all budget assumptions provided for and signed off by Executive Directors, this has been the reason that Earmarked Reserves and General Balances have been required to fund in year overspending when remedial plans cannot meet the balance. Investment has been included in these services in the 2025/26 budget, however as discussed in this report, there is still significant risk that needs to be allowed for, particularly in respect of Children’s Social Care, Adult Social Care and Education Travel Support. Based on the financial position as at the end of November 2024, these budgets will be re-aligned for 2025/26 where appropriate.
- 3.9 Balance Sheet Risk- As reported to Cabinet, the Council has areas of activity for which a balance is held on the Balance Sheet, two such issues being in respect of the High Needs Budget and Sandway Homes Limited. The financial issues, implications and risks associated with these have been reported and if they materialise will require financing strategies to address them.

Budget Setting Assumptions

- 3.10 Sensitivity of budget assumptions - The Council’s budgets for 2025/26 are underpinned by a number of assumptions regarding the prevailing rates of inflation, interest earned and cost growth. While these estimates are believed to be prudent some costs are outside the Council’s control, particularly in the medium-term.
- 3.11 Significant earmarked reserves – The Council maintains funding in Earmarked Reserves. These include funding that Members have set aside for specific purposes. The presence of these reserves reduces the scale of risk the General Fund has to guard against but as reported the Council holds a low level of Earmarked Reserves compared to most other councils thus placing more emphasis on General Balances. It should be noted that due to the forecast overspend position in 2024/25, a review of Earmarked Reserves will be undertaken and any reserves that do not come with a specific legal requirement to hold or are not grant funding with no flexibility for use, will be presented to Members for a decision on releasing to support the in-year position. It should also be noted that these reserves have been set up for specific purposes and as such their use will be in accordance with that approved. These reserves are reviewed as part of each budget cycle and the annual closure of accounts process.

Management / Member Actions

- 3.12 Clear Corporate / Member messages - The Council and its senior management have very clear expectations regarding the delivery of a ‘balanced and sustainable budget’ and have instigated appropriate monitoring and reporting processes to ensure any emerging pressures are promptly addressed. This reduces the risk to be managed through the General Fund.
- 3.13 Three-Year Medium-Term Financial Plan and budget – Given the funding uncertainty facing the Council, pending the reform of the local government funding system and the next three-year settlement, and the increased demand for Council services, the Council has developed a three-year Medium-Term Financial Plan and has set out its new Transformation Programme, with financial sustainability at its core. These will support the basis of the three-year budget plan that is presented in this meeting for decision.
- 3.14 Within last year’s Budget report it was stated that based on the risk facing the Council, that for 2024/25 the Council should seek to increase its General Balances to £30m which would be 11% of the 2024/25 net budget requirement. In addition, due to the increasing significant

risks in the sector, and the low level of Earmarked Reserves, that General Balances will need to increase by at least £2m per annum.

3.15 As reported, within this financial year, £12.3m of balances will be required to be utilised to support the outturn position which will reduce available General Balances to £18.0m at the end of 2024/25. In light of the overall budget position and funding available to the Council, it will not be possible to replenish General Balances in full in 2025/26. A contribution of only £1.5m will be possible, funded from the Council Tax Surplus, meaning a balance of **£19.5m** will be in place from April 2025. Based on the risks facing the Council this sum is considered to be an adequate level to be retained for 2025/26, as it would be sufficient to cover two years of potential managed forecast overspends - however it substantially increases the financial sustainability risk facing the Council and overspending that has been experienced in recent years cannot be accommodated. It is still considered that the Council should have a level of General Balances of over £30m which increase year on year- the three-year Medium-Term Financial Plan sets out increases of General Balances to £30m and any additional resources received from future settlements should be used to increase these further. This position means that the budget proposed must be delivered in 2025/26 with no call on balances.

Earmarked Reserves

3.16 Unlike the General Fund Reserve, Earmarked Reserves are held for a specific purpose. These purposes may be determined by the Council to coincide with its policy objectives, dictated by statute (e.g., schools funding) or agreed with partners who also contribute to the reserve.

3.17 Where the decision to set up a reserve rests with the Council, consideration needs to be given as to the benefits of holding an earmarked balance. The Council holds earmarked reserves separately from its General Fund to meet a number of distinct aims.

- Strategic Reserves - In accordance with policy decisions, funding may be set aside and ringfenced for the benefit of a particular service or project ensuring that there is funding to take the activity forward as planned. This can also include general support to the budget.
- Committed Reserves – Where the Council makes a decision that commits it to incurring additional costs in the future, it can set aside the funding necessary to meet that cost when it arises, ensuring that the costs of current decisions are recognised at the point that decisions are made and do not become a burden on future budgets.
- Uncommitted Reserves – Where the Council is aware of an issue that may incur additional costs in the future, it can set aside the funding necessary to meet that cost if and when it arises, ensuring that the potential costs of these issues do not become a burden on future budgets.
- Restricted Reserves – The Council sometimes receives contributions from partners or has to set aside its own funding in a way that restricts where it can be spent in the future. These reserves can only be used to support eligible expenditure which may be restricted to a particular place, activity or service.
- Temporary Reserves – These are used to phase out timing differences between when the Council (or another body) funds expenditure and when it is incurred.

3.18 The current and anticipated balances on each of these classes of earmarked reserve are shown below.

	April 2024	Estimated 31 March 2025

	£m	£m
<u>Earmarked Reserves</u>		
- Strategic Reserves	-7.693	-3.616
- Committed Reserves	-7.048	0.000
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	-1.575	-0.143
- Temporary Reserves	-16.364	-12.451
Total Earmarked Reserves per Statement of Accounts	-32.680	-16.210

- 3.19 The benefits of holding Earmarked Reserves needs to be weighed against the costs of doing so. Every discretionary Earmarked Reserve ties up funds that may otherwise be available to fund the core activities of the Council. Each reserve also carries with it an administrative overhead as they will need to be maintained, monitored and reported on.
- 3.20 Of the 36 existing Earmarked Reserves (excluding unutilised grants and contributions), 19 are to be retained over the medium-term or beyond. Each of these reserves will be subject to a regular monitoring process to ensure they remain relevant and are achieving their stated objectives. The remaining reserves held are expected to have fulfilled their purpose within the planning period and will be closed at that point. Any surplus funding on these reserves on completion of proposed activities will be appropriated to the General Fund or returned to the original funding source.
- 3.21 It is important that the Council continues to monitor these reserves throughout the year and when required establishes reserves for specific activities or releases funding that is no longer required to be held. This needs to reflect the diverse nature of activity that the Council is engaged in, including commercial activity.
- 3.22 Within these reserves the Council currently holds £0.877m (prior to any usage in 2024/25) to support the cost of school closures where a school transfers to academy status or closes with a financial deficit.
- 3.23 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be around £65m at the end of 2024/25 and is forecast to rise again in 2025/26 despite an increase in High Needs funding nationally of £1,000m (with the end of the statutory override currently due at the end of March 2026). Previously this deficit was held as a negative Earmarked Reserve. However, due to the Statutory Override it is now accounted for as an Unusable Reserve (DSG Adjustment Account). As this is a budget funded by the Dedicated Schools Grant (DSG), the clear guidance from both the Ministry of Housing, Communities and Local Government and the Department for Education has historically been that that the Council cannot use its General Fund to meet this cost or balance. The Government have stated they will review High Needs funding, including the Statutory Override, during 2025/26.

Capital Reserves

Capital Receipts Reserve:

- 3.24 The Council retains a Capital Receipts Reserve to finance future capital expenditure. This reserve is financed by capital receipts set aside on the disposal of land, buildings and other assets as well as well as amounts received from One Vision Housing relating to the Council's share of Right to Buy receipts.
- 3.25 The nature of this Reserve determines that the balance will vary with the timing of the receipts and the Council's capital schemes that the receipts are being used to fund. The

balance at the end of 2024/25, and therefore the opening balance for 2025/26 is estimated to be in the region of £12m.

Unapplied Capital Grants and Contributions Reserve:

- 3.26 The value of this Reserve relates to capital grants and contributions received that have yet to be utilised to fund ongoing capital schemes. The balance at the end of 2024/25 is estimated to be £51m. This funding will be utilised in future years. However, additional grants and contributions will be received that won't be fully utilised in the years they are received so will remain in the Reserve until utilised.

School Reserves

- 3.27 The main element of this Reserve is individual carry forward balances of schools' unspent budgets. It is the Council's responsibility to hold these balances and ensure they are ring-fenced for use against school activities. These balances are expected to gradually reduce over this planning period as the schools utilise their accumulated surpluses to support their activities.
- 3.28 With the funding of schools over the last decade being insufficient, the financial pressure on schools is ever increasing and this reduction is expected to accelerate. The Council has clear financial procedures for schools, that reflects that annual budgets should be set within agreed resources available and sustainable three-year plans should also be approved. Any school that doesn't meet these requirements has to seek approval for a licensed deficit with a view to returning to a balanced position. This will require careful management by schools with support from the Council's finance team but there must be clarity around setting sustainable budgets each year so that the Council's position is protected. This is even more important as there continues to be a central government policy drive to move schools to academy status. This poses a significant financial risk to the Council both through the deficit position of some schools but also the scale of resources currently within the Council that support schools. This work has commenced with 18 schools converting to academy status in 2024/25 which means a loss of SLA income for services of £0.9m that is built into this budget.

4 Basis of Assurance

- 4.1 The key fundamental principles of the report's recommendations which the Executive Director – Corporate Services and Commercial has considered in giving this assurance are therefore: -
- That the budget strategy for 2025/26 is approved as set out in the report.
 - That all Services manage their finances within the clearly defined cash-limits approved as part of this budget and also the savings that are required to be delivered. Whilst the budget risk is recognised, Assistant and Executive Directors must bring forward options to mitigate any cost overruns in accordance with Financial Procedure Rules in order that formal decisions can be made where necessary.
 - That Council approves the updates to the Medium-Term Financial Strategy to 2027/28 and agrees to the proposals to manage a balanced budget in 2025/26; and
 - That the revised Reserves Strategy is approved which will see the General Fund Reserves Minimum Balance start at £19.5m and then increase by at least £5.4m over the subsequent two years (so will be £30.3m in 2027/28) with any funding received by the Council over what is reported in this budget reported also being used to replenish reserves where that funding is not ringfenced for a specific purpose. As the level of funding increases consideration will be given to making further specific allocations to manage

individual risks. The principle that will be in place in the Council is that any use of General Balances must be repaid in the following financial year where possible. In addition, General Balances are not to be called upon for further purposes save in exceptional circumstances with the agreement of the Leader of the Council, Cabinet Member for Corporate Services, Chief Executive and the Executive Director – Corporate Services and Customer (s151 officer) with any use to be approved in accordance with Financial Procedure Rules.

- 4.2 The reserves position will need to be kept under review to ensure that the Council maintains a robust budget and sound financial base.
- 4.3 As a result of considering the issues contained within this report, it is the view that the budget proposed is a robust budget package whilst also ensuring that there are adequate General Balances to draw on if the service estimates turn out to be insufficient. This opinion is provided in accordance with Section 25 of the Local Government Act 2003.

2. Financial Implications

Decisions taken as a consequence of this report will influence the Council's Revenue and Capital Budgets and Council Tax for 2025/26 and thereby shape the Council's financial plan for future years.

3. Legal Implications

The Council is required to set a Budget and Council Tax level on or before 10 March 2025 and must consider the comments of the Chief Financial Officer before that decision is taken.

4. Corporate Risk Implications

Financial sustainability and the risk posed by the High Needs deficit and Sandway Homes are included on the Council's corporate risk register that is reviewed each cycle by Audit and Governance committee.

5 Staffing HR Implications

There are HR implications from this assurance report.

6 Conclusion

The main body of the report provides for all information required.

Alternative Options Considered and Rejected

It is a statutory requirement to complete this report therefore there are no alternative options available.

Equality Implications:
None
Impact on Children and Young People:
The report highlights the current financial position relating to services provided for

Children and Young People

Climate Emergency Implications:

The allocations of capital funding outlined in the main budget report 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.

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 (FD.7940/25).

The Chief Legal and Democratic Officer (LD.6040/25) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

Implementation Date for the Decision:

Following the budget council meeting

Contact Officer:	Stephan Van Arendsen
Email Address:	Stephan.vanarendsen@sefton.gov.uk

Appendices:

There are no appendices to this report

Background Papers:

There are no background papers to this report