

Section 25 Local Government Act 2003 Report

1. SUMMARY

- 1.1. The purpose of the Section 25 Report is to advise on the robustness of the proposed budget and the adequacy of reserves before the Cabinet makes recommendations to the Council in respect of the Revenue Budget for 2024/25.

2. BACKGROUND

- 2.1. Section 25 (1) of the Local Government Act 2003 requires the Chief Finance Officer (Section 151 Officer under the Local Government Act 1972) to report to the Council when setting the Council tax on:
 - the robustness of the estimates in the budget, and
 - the adequacy of the proposed reserves
- 2.2. The Council must have regard to this report when making decisions in respect of the budget and Council Tax (Section 25(2) Local Government Act 2003).
- 2.3. Although the 2003 Act does not explicitly require the Chief Finance Officer to report on the estimates and proposed reserves to the Cabinet it is prudent to do so. This is because Cabinet recommends these to the full Council.

3. THE 2024-25 REVENUE BUDGET

3.1. The Process & Key Assumptions

- 3.1.1. The background to the 2024/25 Budget process has been a difficult year in local government with unprecedented demands on all services, cost of living crisis and inflationary cost pressures, following the multi-year impact of the COVID pandemic. Three local authorities have declared section 114 during 2023/24 to date, and only three before that in the preceding five years. The settlement in 2024/25 was broadly in line with expectations, although the loss of the Household Support Fund was a shock and the reduction of the Service Grant was more aggressive than expected. The Core Spending power was increased by **£19.9m** (7.3%), this is against a background of double digit inflation, meaning a continual fiscal drag on the authority's finances.
- 3.1.2. Beyond this, there is still only a one year settlement meaning its extremely difficult to forecast future years, so there are likely to be ranges of scenario's reflecting the risks and opportunities, as well as the proposed multiple reforms to Local Government funding such as the care cost cap, fairer cost of care, business

rates reform and revaluation which have been delayed again with no specific dates meaning more uncertainty.

3.1.3. Services such as Adults, Children's, SEND, Homelessness and Neighbourhoods have seen unprecedented levels of demand, increased complexity as well as high inflationary pressures on prices.

Conclusion: whilst the budget is balanced for 2024/25, each service must take action to ensure they manage to contain their expenditure within the set budget limit. This will be achieved by:

- Tactical management actions to reduce the in-year overspend.
- Longer term market management and demand reduction projects which will reduce the overall expenditure in the MTFS period.
- Ten Transformation programmes have been identified to reduce both cost and demand on services, through more efficient processes, better income & debt collection and value for money in every decision. A full Business Case will be created for each programme during Q4 of 2023/24).

3.1.4. Senior Officers, Managers & staff involvement

3.1.5. The Council has maintained a robust system of budget monitoring during 2023-24 with a detailed Financial Monitoring Reports presented monthly to Senior Leadership Team, Cabinet and Budget & Performance Scrutiny.

3.1.6. In July 2023 the Senior Leadership Team were presented with an early version of the MTFS for the following three years, which showed a financial gap of **£14m** in 2025/26, which was then presented to all Corporate Directors in the Council (the Extended Leadership Team (ELT)) whereby each service was asked to consider savings proposals and created the foundation for a more collegiate approach to financial management within the authority.

3.1.7. The new Chief Executive joined in August 2023, and was presented with an updated MTFS which showed the gap had grown to **£20m** in 2025/26 and then by extending a year to **£25m** to **£30m** by 2026/27. Work continued with senior leaders to identify management actions to reduce the in year pressures, design of the voluntary redundancy scheme and identify potential savings opportunities and lines of enquiry through to October 2023.

3.1.8. During November, ELT presented their saving proposals (both tactical in-year and also longer term MTFS savings) in challenge sessions with the Chief Executive, the Deputy Chief Executive and the Section 151 officer. These sessions and further refinement have identified **£12m** of tactical management actions which will reduce the overspend and **£5.4m** of base budget savings which have been included in the 2024/25 Budget.

Conclusion: All senior officers understand the financial position and the imperative for management actions to curtail the overspend and then deliver savings to reduce the funding gap, however there is a risk here due to the organisations capacity and the ability to transform quickly enough, which must be

addressed for this budget to be delivered. Action must be taken by all senior officers for the Councils finances to be sustainable over the MTFS period.

3.1.9. **Cabinet, Scrutiny, Opposition, Labour Group**

3.1.10. The refreshed MTFS was presented to cabinet members in December 2023, with a full and transparent process on the assumptions, the risks and the opportunities, and followed up with a series of away days where cabinet members could fully engage in the budget process and the savings proposals.

3.1.11. There is a monthly Finance meeting with the Leader & Deputy Leaders, Portfolio member for Finance, the Section 151 and the Deputy S151 officers to understand the monthly finance monitor, any MTFS updates, Fees & charges progress. The Portfolio member for Finance also has a 2 weekly 1:1 with the Section 151 officer and members of the Resources Management team to be fully briefed on any finance/commercial/legal/audit issues and give direction and guidance as necessary.

3.1.12. Budget & Performance scrutiny regularly review the financial monitor, the corporate performance report and the refreshed MTFS. Finance colleagues also offer finance training sessions and workshops for all members to understand the Council's budget better. This year has also included a joint scrutiny session between Budget & Performance Scrutiny members and the Adult Social Care Scrutiny members, focussing on the Adult Social Care finance pressures and plans to address them.

Conclusion: I see no risk from a lack of engagement or buy in from members, they have agreed with the major assumptions in the budget & MTFS (based upon the best information we have currently) and I am confident they understand the need for strong financial controls and the need to support the actions of senior officers to reduce the level of spend.

3.2. **THE GENERAL FUND**

Inflation

3.2.1. For Waltham Forest the consistently high inflation rates have manifested in every service area, with significant wage increase of 6% as an average across the workforce (greater for those on London Living Wage), ever increasing costs for utilities and the constant pressure from third party contractors for inflation or above inflation increases due to their own financial pressures and increases in material prices which has put considerable pressure on the General Fund, the HRA and all capital projects, which continues into 2024/25 and beyond. As of December 2023, inflation is showing signs of easing, however, there is not expected to be a substantial reduction in interest rates until at least 2025, meaning debt costs will remain prohibitively high alongside continued inflationary pressures.

Conclusion: the capital strategy has been refocussed to enable protection of the MTFS and alongside a commercial approach to any requests for inflationary increases means the Council is taking positive steps in this budget to mitigate this risk as much as possible, but it will need careful monitoring to ensure that projects and services remain within budget.

Adult Social Care

3.2.2. An independent review of the Adult Social Care spend and performance data was carried out in December 2023 and has driven key lines of enquiry which will be addressed during 2024/25, through the MTFS savings proposals and through

a number of the Transformation programmes, as these are driving significant expenditure in the Council:

18-64 Year olds:

- 3.2.3. The Council spending on younger adults is £30 more than the London average (£231).
- 3.2.4. The Council spending is relatively high because it supports more younger adults in long term care (0.92% of the Borough is younger adult population compared with 0.85% for England).
- 3.2.5. The Council spending of £261 per younger adult is £61 more than the 90th percentile (the 15th lowest authority).

Older People:

- 3.2.6. The Council spends significantly more than the England average. The Council spend £1,311 per older person almost 40% more than the England average, which is the 22nd highest spender in England even though the Borough is not a deprived authority, it should be in-line with the England average.
- 3.2.7. The Hospital Discharge to Assess scheme continues to generate increased social care support, for example, more care packages and longer-term living placements. This policy increases demand as well as an increased acuity in need.
- 3.2.8. The other issue that the Council should review is the income from client contributions. This appears very low at 5.8% compared to a national average of 12.3% especially given that the Council places an average number of older people in care homes (almost all older people make a significant contribution to the cost of their care in care homes).

Conclusion: The service must reduce the high costs it is incurring (compared to comparator neighbours), which in turn will reduce the risk to the 2024/25 budget. This needs to be taken further through the Transformation programmes to ensure that the right care is provided at the right time for the right cost, to ensure that the overspend in 2023/24 is not continued into 2024.25 and beyond. This is an area of considerable risk and requires a cross-council approach to solve many of the issues. This area will be under significant financial and performance scrutiny during 2024/25 and if progress isn't made, then there will need to be a stronger action plan put into place.

Children's Social Care

- 3.2.9. During 2022/23 and 2023/24 Children's social care costs increased significantly, mainly due to a larger number of children in residential care settings as well as large increases in the cost of placements.
- 3.2.10. The number of Children in care has fallen significantly over the past few months as has the number of children in high cost residential placements. The benefits of lower numbers in care is partly offset by rising unit costs of places due to market conditions.

Conclusion: The service has taken steps in 2023/24 to reduce the number of children in residential settings, giving them a better outcome as well as lower costs to the Council, meaning the 2024/25 budget is achievable, however the service need to ensure that any placements are reviewed regularly. There is also a proposed new approach to the commissioning of placements including the use

of more frameworks to ensure better value for money which should mean lower unit costs. This area will be under significant financial and performance scrutiny during 2024/25 and if progress isn't made, then there will need to be a stronger action plan put into place.

Special Educational Needs and Disability Service (SEND)

3.2.11. There is continuing pressures in the SEND service including short breaks, domiciliary care, preparing for adulthood placements and Home to School Travel Assistance. Management actions have been identified to mitigate these pressures but these have not been successful in 2023/24 in mitigating the increase in costs. The Home to School contract is of particular importance given the need for the council to switch suppliers as the incumbent was unable to continue, this is an area which needs to be fully considered in 2024/25 to mitigate any pressures.

Conclusion: The SEND service is a high risk area of the budget, and whilst there are plans in place to mitigate the pressures more will need to be done as part of the transformation programmes to manage this area effectively and within budget.

Income

3.2.12. The Council has seen a significant reduction in both Parking and Planning income throughout 2023/24, which is putting pressures on the services this income funds. All fees and charges have been reviewed to ensure that they fully recover all costs (where they are not set nationally) during 2024/25 and the service will need to monitor throughout the year to ensure that income levels are as expected, as this a risk to the budget.

Conclusion: The Fees & Charges budget increase in the 2024/25 budget is **£0.774m**, which is less than the full amount the increased charges will generate to allow for the lower demand which has been seen in this area and not create an unnecessary pressure in the budget.

Housing Demand and Temporary Accommodation (TA)

3.2.13. Waltham Forest, like all London Boroughs has seen continuing increased demand due to the lack of affordable housing. The numbers in TA have been increasing during 2023/24 (an additional 151 placements so far this year) and this is expected to continue throughout 2024/25.

3.2.14. The council is seeing significantly reduced supply and increased cost in procuring private rented properties, as the private rental market has been contracting in London. There are signs of this slowing down however it is a risk in 2024/25 that private landlords will continue to exit the market. Increased costs are still a significant risk both in terms of procuring and sustaining placements and the lack of supply forces the council to use more expensive types of accommodation, particularly commercial hotels.

3.2.15. Although the Local Housing Allowance (LHA) has been increased, the subsidy paid (via Housing Benefit) to councils remains at 90% of Jan 2011 LHA. There is a greater cost to the council for tenants on housing benefit (HB) as the council funds the gap between the subsidy rate and the cost of TA.

Conclusion: Housing and TA remains one of the highest risk factors to the council during 2024/25. Even with new homes being built by the council, registered providers and private developers, demand is outstripping supply. There is a very real risk here of demand (and thus costs) vastly outstripping the financial reserves the Council has within a 24-36 month period and will need strong

demand management processes and mitigations, which both officers and members are well aware. This area will be under significant financial and performance scrutiny during 2024/25 and if progress is not made, then there will need to be a more radical action plan put into place.

3.3. The Housing Revenue Account

3.3.1. The HRA has low levels of reserves and therefore require replenishing to increase the HRA's financial resilience to ensure risk mitigation against future pressures (e.g. Building Safety and damp & mould). The Housing service has committed to an efficiency programme to reduce the net cost of the service and therefore to contribute to the replenishment of reserves. The service has been reviewed for efficiencies to achieve **£0.3m** savings per year without affecting the delivery of the housing service, which appears to be a reasonable assumption.

Conclusion: This is an area that needs close monitoring especially given the potential shocks that can occur suddenly and the low level of reserves. The council will need to continue to look at ways to protect the HRA position and its reserves as much as possible.

3.4. The Dedicated Schools Grant and High Needs Block

3.4.1. The increase in funding for the High Needs block is unlikely to be sufficient to fund the projected increase in Education and Health Care Plans (EHCPs) and other inflationary pressures and there is a significant risk of an in-year deficit in 2024-25.

3.4.2. The cumulative net DSG deficit is **£2.6m** comprising the High Needs Block deficit of **£4.5m** offset by surplus balances on the other Blocks.

Conclusion: While the DSG deficit is relatively small and has been relatively stable compared to many other local authorities, the risks of unfunded demand may lead to the cumulative deficit increasing. The Education service (alongside the Schools Forum) needs to implement a series of management actions to mitigate this risk and has prepared a strategic deficit management plan to prevent the situation worsening and to turn the financial deficit around.

3.5. Household support fund

3.5.1. The current phase of the Household Support Fund will run for 12 months (April 2023 to March 2024), providing **£4.65m** of grant funding which the council targets to ensure the most vulnerable receive help and to expand advice services within communities. This grant will not be renewed after March 2024.

Conclusion: These provisions will have to cease as no other funding stream has currently been identified which will drastically reduce the amount of support the Council are able to give to these residents most in need as there are no other sources of funding within the budget for these services.

4. PROJECTED 2023-24 OUTTURN

4.1. The latest full year forecast for the year is a service pressure of **£16.283m** will be managed by corporate action to balance the budget position by year-end, including a likely contribution from reserves.

Conclusion: **£12m** of management actions have been identified which will take effect during 2024/25 to reduce this overspend position which appear to be sensible and a high likelihood of success if they are implemented quickly and robustly. If the

overspend does not show signs of reducing, then there will need to be more drastic actions plans put into action including corporate spending controls.

5. RESERVES

5.1. The Council's total reserves have reduced significantly from **£134m** in 2020/2021 to **£76m** 2023/24. Within the that there are large balances which are not controlled by the Council (e.g. Schools balances), but the earmarked reserves reduced from **£87m** in 2020/21 to **£53m** in 2023/24. Reserves were chosen to be utilised to fund the MTFS in recent years as well as the Fair Deal programme to enhances services coming out of COVID-19 pandemic.

5.2. The Council has analysed the proposed uses of its reserves and balances during 2023/24 and has managed to increase the Budget Strategy Reserve to **£22m** by the end of 2023/24 which will be utilised to fund the Transformation programmes, redundancy payments due to redundancy schemes plus any year-end overspends that cannot be contained.

Conclusion: The earmarked reserve balance of **£53m** is low for an authority this size and to ensure long term financial sustainability, must be replenished, meaning that in year pressures must be contained and that the funding gaps are closed and generate a surplus/underspend on the general fund. The council cannot rely on its reserves to cover future funding gaps and so senior officers and members must deliver on the savings that have been identified and continue to manage in year pressures within the financial envelope.

6. CAPITAL STRATEGY

6.1. The Capital Investment Strategy demonstrates the delivery of our investment programme and plans, recognising the vital role that the council plays in ensuring Waltham Forest continues to build for the future. It sets out the Council's capital programme with **£745.9m** of planned investment over the 11 years to 2033/34.

Conclusion: the strategy (and thus officers and members) has recognised that market factors such as high inflation, high interest rates and rapidly increasing material prices means that the previous level of capital investment ambition in the borough has had to be reconsidered and a new principle based approach will apply for all new schemes to protect the Council's MTFS. The programme also contains **£15m** of contingency for existing schemes, as well as a new **£5m** contingency across the new schemes to ensure that any reasonable unknown risks can be funded without impact to the budget/MTFS. However, projects must be delivered on time, to budget and ensure that each scope is well defined and not allowed to creep over time.

7. MEDIUM TERM FINANCIAL STRATEGY

7.1. The Council's latest MTFS forecasts a net funding gap of **£20m** by 2026/27 which includes savings of **£6.7m** that have been identified. The **£20m** gap is intended to be addressed through ten transformation programmes which will be the main route to overall financial stability. The **£20m** future funding gap also assumes that the **£16.283m** in year overspend is managed in the next 12 months, services have identified at least **£12m** of management actions to bring this spend within the financial envelope, which appear to be reasonable and deliverable in the timeframes.

Conclusion: To deliver a robust balanced MTFS in the future requires significant amount of savings and management actions. The council has put robust programme management in place, all staff members are aware of the financial situation and the need to curtail spending, all Directors and Heads of Services have been fully engaged throughout the run up to the 2024/25 Budget identifying options for savings & efficiencies. The work will need to continue through 2024/25 and beyond to ensure

that the council remains financially sustainable as the funding gap is still a significant challenge.

CONCLUSION

7.2. Robustness of estimates and assumptions

7.2.1. In my role as Section 151 Officer of the authority, I am comfortable with the robustness of the estimates in the Budget and the MTFS (as far as it can be predicted). The assumptions allow for targeted service growth where necessary as well as realistic savings and efficiencies which have a more than reasonable chance of delivery. Services must take the actions they have committed to, to ensure the council's future sustainability and replenishment of reserves to mitigate the risks identified throughout this report. The Council's reserves are low when compared to our peer authorities meaning our ability to react to shocks is diminished and so the Council finances must be focus for the MTFS period.

7.3. Section 114/Financial Sustainability

7.3.1. In my role as Section 151 I can confirm that the authority:

- is not in a Section 114 notice situation at the time of this report.
- has adequate reserves for the next 12 months subject to any major unforeseen unfunded burdens or shocks.
- has adequate reserves for the next 24 to 36 months, subject to services delivering the management actions to reduce the overspend and then the MTFS savings that have been identified already and making progress toward the remaining MTFS gap through the Transformation workstreams, and subject to the same points as above.

7.3.2. The Senior Leadership Team and the Council's political leadership team and Council are in fully supportive of the need to make some tough decisions to close the funding gap. They also all recognise the need for more drastic solutions come June 2024 (such as spending moratoriums, corporate spending controls etc) should the overspend not be contained and sufficient progress made towards delivering the MTFS savings.

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