APPENDIX 2

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 2025/26.

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 2025-26 REVENUE BUDGET

The Process & Key Assumptions

3.1.1. The background to the 2025/26 Budget process has been another extremely challenging year in local government with unprecedented demands on all services, cost of living crisis and continual high inflationary cost pressures which is outstripping any funding increases. During 2024/25, there has been a minimal number of councils declaring a section 114 notice. However, 19 Councils have had over £2.5bn of support agreed in principle by the government through the Exceptional Finance Support (EFS) scheme, of which, £1.4bn relates to support for 2024/25 and a further £1.1bn for prior years. The support is in the form of either a capitalisation directive (allowing them to borrow for everyday service expenditure) and/or above referendum limit in Council tax increases. It should be noted that whilst the capitalisation directive appears to have less significant direct impact on residents, this decision should not be taken lightly, as any borrowing for every day services will add to future revenue costs through additional financing costs, unless assets can be sold to repay. This form of support basically gives the council breathing space to allow time to reduce revenue costs substantially and is not a solution to the funding crisis facing the sector.

3.1.2. The settlement in 2025/26 was on one hand better than expectations, with a new £4.9m recovery grant (Waltham Forest was one of only 15 Councils in London to receive this grant, based upon deprivation levels and low ability to generate council tax income) which should have eased the burden on the Council's finances. However, this has been offset by inflation pressures, service specific pressures and the shortfall on additional Employers' National Insurance Costs as this specific compensation was insufficient to fund the full cost. The additional social care grant funding allocated for both Adults and Childrens and the new Childrens Social Care prevention grant have been passported directly to the services but will be more than offset by cost pressures, including those from our supply base, many of which in the social care market feel are already on the brink of bankruptcy.

The settlement did not go anywhere near far enough to prop up Council's finances and we will continue "to circle the drain" representing a section 114.

3.1.3. Without the reform of Local Government funding and the delivery of the Council's transformation and savings programmes to the required levels then it will be less than 24 months before we require ESF ourselves. This is assuming our temporary accommodation pressures do not spiral out of control like many other London Boroughs have this year.

3.1.4. The Core Spending power was increased by **£21.7m** (7.4%), this is against a background of double-digit inflation, meaning a continual fiscal drag on the authority's finances.

3.1.5. Beyond this, there is still only a one-year settlement meaning its extremely difficult to forecast future years. 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 planned for 2026/27, which could shift of funding away from London to other parts of the country, which would mean more financial pressures rather than any relief, certainly if Housing costs are not factored into any basic need formula.

3.1.6. Services such as Homelessness and SEND have seen unprecedented levels of demand this year, increased complexity as well as high inflationary pressures on prices.

3.1.7. On homelessness, Waltham Forest has managed to hold off any significant financial pressures in this area for a decade due to its choice to build homes at a greater rate than many other councils in the country. However, there will be a significant pressure in 2025/26, if the steps outlined by the service are not effective and the demand isn't contained. There is a very real risk that these pressures will be greater than the level of reserves the Council has, resulting in EFS or worse Section 114 being declared earlier than forecast.

3.1.8. On SEND, for both the general fund and the high needs block there are significant pressures from the number of children being identified as requiring Educational Health Care Plan (EHCP) (which is a national issue, not just this borough) and then the knock on effect of these children's needs in the SEND service, from social work support, to transport costs as well as specialist teachers & support. The government has allowed authorities to have "negative" balances in reserves for the High Needs Block until March 2026 meaning the problem is not being addressed. If the March 2026 date is not extended, all authorities will need to write the negative balance off, meaning an immediate impact on the general fund, which will cause many councils to enter into a section 114 situation. For Waltham Forest, the high needs block deficit is forecast at £10.4m and the cumulative net Dedicated Schools grant forecast deficit is £7.4m. If this was required to be written off, it would not immediately require a Section114 but would seriously deplete the Council's reserves and the likelihood of an EFS request or Section 114 increases significantly.

Conclusion: whilst the budget is balanced for 2025/26, each service must take action to ensure they manage to contain their expenditure within the set budget limit. This will only 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.
- The Council's 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 and they are all now in train and must deliver the savings that have been identified in the robust business case approvals during 2024/25.

3.1.9. **Senior Officers, Managers & staff involvement**

3.1.10. The Council has maintained a robust system of budget monitoring during 2024-25 with a detailed Financial Monitoring Reports presented monthly to Senior Leadership Team, Cabinet and Budget Scrutiny.

3.1.11. In July 2024, the Senior Leadership Team (SLT) 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. Many of these savings' proposals were identified through the Transformation programme which started in late 2023/24.

3.1.12. Throughout the summer, work continued with senior leaders to identify management actions to reduce the in-year pressures, with a particular focus on significantly reducing the number of agency staff, reducing the use of consultant and the use of honorariums.

3.1.13. During November, Strategic Directors presented their saving proposals (both tactical in-year and also longer term MTFS savings) to the rest of SLT, for a robust discussion and challenge. These sessions and further refinement have identified **£9.6m** of tactical management actions which will reduce the overspend and **£13.7m** of base budget savings which have been included in the 2025/26 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 Council's finances to be sustainable over the MTFS period.

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

3.1.15. The refreshed MTFS was presented to Cabinet members in November 2024, 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.

3.1.16. 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.

3.1.17. Budget scrutiny regularly review the financial monitor and the refreshed MTFS. Finance colleagues also offer finance training sessions and workshops for all members to understand the Council's budget better.

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 4% 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 2024, 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 spends, and performance data was carried out in December 2023 and has driven key lines of enquiry which have been used during 2024/25 to stem the flow of the overspend and now the basis for the savings plans within the MTFS.

There continues to be pressures on providers across all adult social care, which will be exacerbated by the increase to Employers' National Insurance, which there is no additional funding from government, meaning any increase in ASC grant or Social Care precept must be used to plug this gap alongside any increases in service demand and other inflationary costs such as the living wage.

The service has also instructed a third party to review all external contracts and commissioning arrangements to understand where further savings and efficiencies could be gained through better market management.

Conclusion: The service must reduce the high costs, it is incurring (compared to comparator neighbours), which in turn will reduce the risk to the 2025/26 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 2024/25 is not continued into 2025/26 and beyond. This is an area of considerable risk and requires a cross-council, mission-based approach to solve many of the issues. This area will be under significant financial and performance scrutiny during 2025/26 and if progress isn't made, then there will need to be a stronger action plan put into place.

Children's Social Care

3.2.3. During 2024/25 the number of Children in care has fallen significantly from a high of 312 to the latest January data showing 270. 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 considerable steps in 2024/25 to reduce the number of children in care generally, but also those in residential care, giving them a better outcome as well as lower costs to the Council, meaning the 2025/26 budget is achievable, however the service need to ensure that any placements are reviewed regularly.

The service has also drastically reduced the number of temporary staff, either through attrition or through conversion to permanent members of staff, meaning reduced costs but also a permanent workforce that is focussed on the best needs of the child in the borough. 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)

3.2.4. There is continuing pressures in the SEND service, which is significant in 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 2024/25 in mitigating the increase in costs.

The Home to School contract is of particular importance given the historic weaknesses in the market and its providers, which has meant the current contract has had to be extended for 2 years on a cost plus basis, meaning that the contract spend can be fully scrutinised by officers and only these agreed costs plus a slim margin can be paid to the provider, allowing the council to have greater influence on the costs where possible.

The Preparing for Adulthood service (also known as Transitions in other councils) is overspending in 2024/25 and requires focus from the Childrens/SEND leadership team to ensure that the right packages are being purchased for these children to young adults in transition to ensure the right outcomes for the child as well as value for money for the council. This area will need a particular focus during 2024/25 to ensure the forecast budget is robust enough to contain 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.

Housing Demand and Temporary Accommodation (TA)

3.2.5. Waltham Forest, like all London Boroughs has seen an exponential increase in demand for temporary accommodation, mainly due to the lack of affordable housing, plus also a collapsing private rental sector as well as the failure of Local Housing Allowance (LHA) rates to keep up with market conditions. The numbers in TA have been increasing during 2024/25 (an additional 559 placements between November 2023 and November 2024), an 56% increase in 12 months.

3.2.6. The council is seeing significant 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 2025/26 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.

3.2.7. 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.

3.2.8. The council is working hard to tackle the issue of supply of new affordable homes, through the purchase of the Osier Way site earlier in the year, purchasing of street properties and block purchase deals with developers such as Countryside. It has also block purchased rooms at two sites within the borough at a much-reduced cost to standard nightly accommodation for a 2-year period. The service has recently commissioned a unique piece of work in London, whereby residents in temporary accommodation will be targeted for a specific outcome-based intervention to upskill them and get them into better paid jobs, lifting them out poverty and the need for TA accommodation. The first tranche of residents will start this programme imminently.

Conclusion: Housing and TA remains one of the highest risk factors to the council during 2025/26. 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-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 2025/26 and if progress is not made, then there will need to be a more radical action plan put into place and tougher decisions made.

The Housing Revenue Account (HRA)

3.2.9. The HRA has low levels of reserves and therefore they 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 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.

3.2.10. The council has decided to reduce the level of capital contribution from revenue funding for a period of 5 years to allow this funding to be used to rebuild the HRA reserves to a level of around £13m to £15m, at which point the HRA will be in a much more stable position and can consider investing back into estate regeneration, but only once the reserves have been replenished. The delay to the capital contribution means that the HRA debt is not paid off as quickly, however given the scale of the HRA debt, a 5-year reduction will not have a material impact on debt levels at this time.

Conclusion: This is an area that needs close monitoring especially given the potential shocks that can occur suddenly and the low level of reserves, especially given the requirement for the HRA stock to meet "good homes standards" and provide safe accommodation for its residents. The approach outlined above is sensible and gives the HRA the ability to rebuild its financial position and continue to house the boroughs residents.

The Dedicated Schools Grant and High Needs Block

3.2.11. 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 additional in-year deficit in 2025-26.

3.2.12. The cumulative net DSG deficit is **£7.4m** comprising the High Needs Block deficit of **£10.6m** offset by surplus balances on the other Blocks.

Conclusion: The DSG deficit had been relatively small in previous year but has increased significantly in 2024/25 and this trend is likely to continue. Therefore, this unfunded demand is leading to increases in the cumulative deficit. 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.

4. PROJECTED 2024-25 OUTTURN

4.1. The latest full year forecast for the year is a service pressure of **£20.522m** which will be managed by corporate action to balance the budget position by year-end, including a likely contribution from reserves.

4.2. There has been a significant reduction in Childrens Social Care spend during 2024/25 which has reduced the overspend considerably. Adults Social Care has a robust plan in place but will need careful monitoring during 2025/26 to ensure not only are the savings delivered, but that spend is reduce, income is collected efficiently and that markets are managed.

4.3. Temporary Accommodation, Social Care and SEND remain the biggest areas of concern within the 2024/25 outturn and the future MTFS period, which may require the use of reserves to balance in year positions whilst the demand management and efficiency programmes get up to full speed.

4.4. This position also includes 3 months of reduced agency spend and tighter spending controls on non-essential items, which should make a significant difference during 2025/26 as they continue into a full year position.

Conclusion: 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 **£126m** in 2020/2021 to a forecast of **£56m** 2024/25. Within 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 **£44m** in 2024/25. 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 reserves are the lowest the Council has had in over 6 years, and whilst are sufficient for the coming 18-24 months, which is only the case, if all of the actions set out in the budget report are successful and spending is curtailed, and savings made. Should these not occur, or demand for services such as temporary accommodation or SEND grow at the same exponential rate with no curtailment then the councils reserves will be seriously depleted within a 12-month period.

5.3. A recent study shows that the Council was ranked 12th out of 26 London boroughs (6 did not respond) in terms of reserves as a percentage of net expenditure, a measure of how much reserve cover the council has. Whilst this was slightly above the average it did show a big concentration of councils between 2% and 3%, for which the Council is at the upper end of this group.

5.4. The Council has used a large proportion of the Budget Strategy Reserve £5.3m in 2024/25 to fund transformation programmes to deliver savings. This is the foundation of the balanced budget for 2025/26 but going forward it will not have the same level of reserve available for this change capacity.

Conclusion: The earmarked reserve balance of **£44m** is low for an authority this size at 3% of net expenditure 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 **£712m** 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 **£3.8m** of contingency for existing schemes, as well as a new **£10m** 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 **£10.6m** by 2027/28 which includes savings of **£13.7m** that have been identified**.** The **£10.6m** gap can be reduced by further savings and efficiencies throughout the future MTFS periods, however there is a lot of uncertainty in future years, due to the spending review and fair funding review during 2025/26, therefore any future year MTFS forecast should be taken as indicative only at this point.

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 2025/26 Budget, identifying options for savings & efficiencies. The work will need to continue through 2025/26 and beyond to ensure that the Council remains financially sustainable, as the funding gap is still a significant challenge, in conjunction with uncertainties with future funding due to the Spending Review and the reforms to local government funding.

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 pressure funding 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 Councils 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 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 2025 (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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