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Dear Stephen

Halton Borough Council – Financial Sustainability

As the Council's appointed external auditor, our responsibilities include providing an opinion on the financial statements and assessing the arrangements for Value for Money (VFM) - securing economy, efficiency and effectiveness in the Council's use of resources.

We also have additional powers and duties under the Local Audit and Accountability Act 2014. These include powers to issue a public interest report, make statutory recommendations and to apply to the Court for a declaration that an item of account is contrary to law. This letter is an informal communication ahead of a more formal consideration of the use of these powers and reflects the serious emerging issues arising from our 2023/24 VFM audit.

Whilst our VFM work is ongoing, the work to date has identified a number of serious concerns about the financial and service challenges that the Council is facing and the risks to the Council's financial sustainability in the short and medium-term.

Background

In our 2022/23 Auditor's Annual Report we identified three significant weaknesses at Halton Borough Council. The Council was at that time in a challenging financial position and had established a transformation programme which was expected to deliver in-year savings in 2023/24 to support its financial position. However, these savings have not been delivered and the Council overspent by £5.6 million in 2023/24. The Council now has just £5.1 million left in General Fund reserves and is forecasting a £20.4 million overspend for 2024/25 as at May 2024.

The Council is aware that it faces significant challenges to its financial sustainability and is in discussions with Government to seek Exceptional Financial Support (EFS) in order to address the difficulties the Council is facing in 2024/25 and in order to be able to set a balanced budget for 2025/26.

The Council is also facing substantial service challenges. Inadequate Ofsted inspections on SEND in 2023/24 and Children's Services in 2024/25 have resulted in the Department for Education sending a commissioner in to look at Children's services, planned for later this year. Addressing these service issues is likely to require additional investment and adds to the Council's financial pressures.

Our responsibilities

As part of our VFM responsibilities we are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money, recommendations are made setting out the actions that should be taken by the Council. The Code expects where auditors identify significant weaknesses in arrangements as part of their work, they raise them promptly with those charged with governance.

Whilst we have not yet completed our Value for Money work for 2023/24, the findings to date indicate a number of significant concerns that are set out in more detail below:

Initial Findings

1. The S151 Officer has informed us that the Council has £11.5 million total usable reserves available (including £5.1 million General Fund reserves) and a forecast overspend of £20.4 million for 2024/25 as at May 2024. We understand a deep dive is currently underway into understanding and assessing the full-year forecast in order to determine the accuracy of the early forecast. However, even if this forecast is revised, there appears to be a substantial gap to bridge this financial year. The Council are in talks with MHCLG about EFS as the S151 Officer feels that without additional support the Council faces significant financial difficulties in 2024/25 and will not be able to set a balanced budget for 2025/26.
2. The Transformation programme had a target to deliver savings of £4 million in the 2024/25 budget. The S151 Officer informed us that the financial forecasting as at May 2024 identifies this as not achieved and the programme is currently forecast to deliver nothing in 2024/25. The programme is currently being rescoped despite having been established over two years ago, with benchmarking exercises being repeated and a new member governance board set up in July. We understand that member governance was established in July 2024 but was not expected to meet until September 2024 and there is no officer board at a senior level to drive programme management. The S151 Officer is not part of the programme.
3. Agency costs were a significant driver of the Council's £5.6 million overspend in 2023/24 and are a continuing concern. In 2023/24 the Council spent £14.3 million on agency fees, an increase from £13.6 million in 2022/23. The Council did not make any allowance for the overspend on agency in 2023/24 in the 2024/25 budget, setting the expectation that agency costs are covered by departmental budgets. The Council are setting up a joint venture with Commercial Services Group with the ambition of reducing agency costs, but it is unclear how much this will cost and what the benefits are at this stage. The Council is also maintaining its £5 million contract with Matrix for agency costs so it is unclear how significant savings will be achieved.

4. The Council's forecasts show the Dedicated Schools Grant (DSG) deficit rising from £2.9 million in 2023 to £33.9 million by 2028 and even with mitigations, the stretch target for this is still £21 million. In 2026 this would be £13.3 million - more than the Council is currently holding in usable reserves. This presents a significant risk if the Government's statutory override is not extended beyond March 2026. Meanwhile, children and young people services are in significant difficulty with two inadequate Ofsted reports on SEND and Children's services. In November 2023, Ofsted delivered an Area SEND inspection of Halton Local Area Partnership. It found widespread and/or systemic failings leading to significant concerns about the experiences and outcomes of children and young people with special educational needs and/or disabilities (SEND), which the local area partnership must address urgently. An Ofsted inspection from 13 to 24 May 2024, published in July 2024 identified a significant deterioration in the quality of practice for children and young people. It found that a lack of stable and effective leadership has led to shifting strategic priorities and an absence of continuous systematic improvement planning. This has been compounded by weak governance arrangements, limited performance information and workforce instability. There has been insufficient pace in tackling the serious deficits identified at a focused visit in October 2021. The Department for Education is sending in a commissioner to look at Children's services for 3 months expected later this year/early next year. The S151 Officer informed us that the Council feels they are making substantial improvements in Children's services under the new director in the last 6 months and are on the right track with this, but the Ofsted report reflects service performance over the last 3 years. Investment is likely to be required to address these failing services and the S151 Officer has expressed concerns about what additional funding will be required to deliver an action plan.

These initial findings set out an extremely challenging situation, particularly because of the low level of reserves available and the risk that the Council's reserves will be fully depleted, increasing the risk of the need to issue a section 114 notice.

We are concerned that the Council has not made sufficient progress in addressing the significant weakness we identified in financial sustainability arrangements in our 2022/23 Auditor's Annual Report, which we presented to the Audit and Governance Committee in March 2024. Whilst we understand that there has only been five months since we reported and there has been disruption caused by the General Election in this time, we are concerned that the Council has not demonstrated sufficient urgency in taking control over these issues.

Next Steps

Whilst we are yet to conclude our 2023/24 VFM work and reach our final judgements, the concerns raised above will result in our reporting a number of significant weaknesses in arrangements which will result in raising of either key or statutory recommendations.

We intend to report to the Audit and Governance Committee with our full findings in our Auditor's Annual Report on 25 September 2024. Should any additional work be required impacting this timetable, we will first discuss this with the S151 Officer and agree a revised timetable taking into account our obligation to report in a timely way.

We recognise that the Council is in discussions with Government about EFS which, if secured, would help to address the financial risks that it faces and that work to deliver savings under the Transformation Programme is ongoing. We also recognise the steps the Council has taken put an action plan in place to address the issues in SEND and Children's services.

The Council should act with urgency to put in place a credible financial recovery plan which sufficiently addresses the service issues identified, recognising that sufficient capacity and join-up within the transformation and finance teams will be essential to this.

We request that this letter is shared with all members at the earliest opportunity. This letter, and management's response, should also be included within the September 2024 Audit and Governance Committee's papers.

Yours sincerely

Michael Green

Michael Green, Engagement Lead
For Grant Thornton UK LLP

cc Ed Dawson - Section 151 Officer
