

**REPORT TO:** Executive Board

**DATE:** 14 November 2024

**REPORTING OFFICER:** Director of Finance

**PORTFOLIO:** Corporate Services

**SUBJECT:** Medium-Term Financial Strategy 2025/26 – 2028/29

**WARD(S):** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 To establish the Council's Medium-Term Financial Strategy for the period 2025/26 to 2028/29.

## **2.0 RECOMMENDATIONS: That;**

- (i) the Medium Term Financial Strategy presented in Appendix 1, be approved;**
- (ii) the 2025/26 base budget be prepared on the basis of the underlying assumptions set out in the Strategy;**
- (iii) the Reserves and Balances Strategy presented in Appendix 2 be approved;**
- (iv) the award of Council Tax Support for 2025/26 remains at the 2024/25 level of 21.55%.**
- (v) Council approve the submission of an application to Government for Exceptional Finance Support”.**

## **3.0 SUPPORTING INFORMATION**

### Medium-Term Financial Strategy

3.1 The Medium-Term Financial Strategy (MTFS) sets out a three-year projection of the Council's resources and spending. It has been based on the most recent information that is currently available. The 2025/26 financial year sits outside of the period of time covered by the most recent Public Sector Spending Review, published in October 2021. The Chancellor has commissioned a new Spending Review which is intended to set Government Departmental Expenditure Limits over a three-year period. The Spending Review is set to conclude in Spring 2025, which will not be in time to inform 2025/26 budgets. 2025/26 Departmental Expenditure Limits are anticipated to be announced in

the Budget on 30 October 2024 and will be for a single year only. Details of the 2025/26 Local Government Finance Settlement are expected to be released in December 2024 on a provisional basis, with a final settlement expected in January 2025.

- 3.2 The uncertainty regarding 2025/26 financial resources means the financial information included within the MTFs is based on a large number of assumptions and best estimates. The financial forecast will be updated as further information becomes known.
- 3.3 There is considerable uncertainty surrounding Local Government Funding in 2025/26 and beyond. The previous Government had committed to commissioning a Fair Funding Review, which would change how funding is apportioned between councils. This was originally proposed in 2016 and then repeatedly delayed, with the Fair Funding Working Party not meeting since 2019. The proposed Business Rates Baseline Reset and a move to 75% Business Rates Retention were also postponed indefinitely. There has been no confirmation from the new Government whether these schemes will be re-started, or whether there are any plans to implement fundamental reforms of the Local Government Finance system in the future.
- 3.4 Appendix 1 details the Medium-Term Financial Strategy from 2025/26 – 2028/29 which has been produced using a prudent estimate of the financial conditions over the course of the next four years.
- 3.5 The Strategy provides initial guidance to the Council on its financial position into the medium-term. It assumes the achievement of budget savings proposals totalling £1.349m relating to 2025/26, which Council approved on 1 February 2023. Details of these savings can be found in Appendix 3.
- 3.6 Adopting a prudent view, the Strategy identifies that further revenue budget savings of approximately £38.1m, £14.5m, £7.3m, and £9.3m are required over the next four years. As a result, a total of £69.2m will need to be removed from the Council's budget by reducing spending or increasing income, by 2028/29. This represents 46.3% of the 2024/25 net budget.
- 3.7 The projections within the strategy show there is continued need to find a significant level of budget savings over the next four years, the scale of which will be extremely difficult to implement.
- 3.8 The Council's Transformation Programme will be key to closing the budget gap, as it will require fundamental changes to the way the Council delivers services. Work is currently ongoing to refocus and reprioritise the Programme given the scale of financial challenges that the Council faces.
- 3.9 The Council has a legal duty to set a balanced budget each year, meaning that anticipated expenditure cannot exceed the income which the Council expects to receive in any particular year.

#### Exceptional Financial Support

- 3.10 If a local authority does not expect to be able to set a balanced budget, they can apply to the Ministry of Housing, Communities, and Local Government (MHCLG) for Exceptional Financial Support (EFS). This will normally take the form of a capitalisation direction, permitting the authority to meet revenue costs through capital resources. It is important to note that EFS is not a long-term solution to solving financial difficulties. The additional capital resources required will take the form of borrowing from the Public Works Loan Board. The cost of this borrowing, which can be significant, must be met from future revenue budgets, putting additional pressure on the funding available for core services. Government will only grant EFS where they are satisfied that authorities will continue to mitigate and manage their cost pressures, in order to ensure they return to a sustainable budget position in the short to medium term. Any authority receiving EFS will be subject to an external assurance review and will be required to regularly report to Government on their financial position.

#### Section 114 of the Local Government Finance Act 1988

- 3.11 If MHCLG do not approve an application for EFS, the Section 151 Officer of any council which cannot set a balanced budget, will be required to issue a Section 114 Notice under the Local Government Finance Act 1988. Once the Notice is issued, no new spending can be undertaken without authorisation of the Section 151 Officer, and the council must meet within 21 days to discuss how to reduce expenditure to match the funding available. Government may also elect to intervene in the management of the council, either through direct instructions to make certain changes or the appointment of commissioners to take over operations.

## **4.0 POLICY IMPLICATIONS**

- 4.1 The MTFS represents the “finance guidelines” which form part of the Council’s medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key priorities and objectives, and are an important influence on the development of the Corporate Plan, Service Plans and Strategies.

## **5.0 FINANCIAL IMPLICATIONS**

- 5.1 The MTFS provides a guide to projected funding resources and spending requirements over the four year term. The grant amounts included in the MTFS are based on the latest information provided by Government. As new information comes to light the forecast of future income streams will be updated. Decreases to funding resources will create further budget pressures for the Council in delivering its key priorities and objectives.

## **6.0 IMPLICATIONS FOR THE COUNCIL’S PRIORITIES**

- 6.1 **Improving Health, Promoting Wellbeing and Supporting Greater Independence**

- 6.2 **Building a Strong, Sustainable Local Economy**
- 6.3 **Supporting Children, Young People and Families**
- 6.4 **Tackling Inequality and Helping Those Who Are Most In Need**
- 6.5 **Working Towards a Greener Future**
- 6.6 **Valuing and Appreciating Halton and Our Community**

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

## **7.0 RISK ANALYSIS**

- 7.1 The MTFFS is a key part of the Council's financial planning process, and as such it aims to minimise the risk that the Council fails to achieve a balanced budget.
- 7.2 The financial forecast is presented on a prudent basis but there is continued uncertainty around Government support, funding levels and the high cost of inflation. This will be reviewed on a constant basis to help mitigate the increased level of risk.
- 7.3 The failure to set a balanced revenue budget may lead to the requirement for the Council's Section 151 Officer to issue a Section 114 Notice.

## **8.0 EQUALITY AND DIVERSITY ISSUES**

- 8.1 There are no direct equality and diversity issues.

## **9.0 CLIMATE CHANGE IMPLICATIONS**

- 9.1 There are no direct climate change issues.

## **10.0 REASON FOR THE DECISION**

- 10.1 To seek approval for the Council's Medium Term Financial Strategy for 2025/26 to 2028/29.

## **11.0 ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

- 11.1 The alternative option of not maintaining a Medium-Term Financial Strategy has been considered. However, this would not follow good financial

management practice, as the Medium Term Financial Strategy is a key element in informing the Council's financial planning and budget setting processes.

## **12.0 IMPLEMENTATION DATE**

12.1 The Medium Term Financial Strategy 2025/26 to 2028/29 will be implemented from 1st April 2025.

## **13.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

<b>Document</b>	<b>Place of Inspection</b>	<b>Contact Officer</b>
Local Government Grant Settlement 2024/25	Revenues and Financial Management Division, Halton Stadium, Widnes	Steve Baker

# Appendix 1

## Medium Term Financial Strategy 2025/26 – 2028/29

### 1.0 Introduction

- 1.1 The Medium Term Financial Strategy (MTFS) sets out a four-year projection of the Council's resources and spending covering the period 2025/26 to 2028/29. The projections made within the MTFS must be treated with caution and require continuous updating as the underlying assumptions behind them become clearer.
- 1.2 The MTFS represents the "finance guidelines" that form part of the medium-term corporate planning process. These guidelines identify the financial constraints which the Council will face in delivering its key objectives, and are an important influence on the development of the Corporate Plan, Service Plans and other strategies.
- 1.3 Beyond 2024/25 there is great uncertainty regarding the funding of local government. There has been no indication from the new Government as to when, or if, there will be a major review of local government finances.
- 1.4 The following measures will continue to be considered throughout the period covered by the MTFS:
  - **Business Rates Retention** – The movement towards an increased retained share of business rates for local government has been cancelled. It is not clear what impact this will have on the 100% rates retention pilot scheme operating within Liverpool City Region. This arrangement has increased the funding available to Halton, by allowing all growth above the business rates baseline to be retained rather than shared with Government. For the purposes of the MTFS, it has been assumed that the pilot scheme will remain in operation during 2025/26, but will cease in 2026/27, leading to a reduction in funding of approximately £6.296m.
  - **Business Rates Baseline Reset** – A reset of the business rates baseline was due to take place in 2021/22, but was subsequently postponed. Halton has seen a high level of growth in business rates since the previous reset in 2013 and would be expected to lose funding from a reset in the baseline. The greater the delay to the reset, the more difficult it becomes to implement as there will be additional years of growth to account for, leading to larger changes to the funding of individual authorities which will likely require transitional arrangements to mitigate. It has been assumed that the reset will not take place within the time period covered by the forecast.
  - **Assessment of Needs Reset** – Central Government's current assessment of the needs of individual authorities has not been updated since 2013, and in many cases is based on data that is even older. Halton is an area of high deprivation which has worsened relative to other areas over this period. A

review of the relative needs of individual councils, and changes to the allocation of government grant funding, would likely lead to increased funding for Halton. A Fair Funding Review was proposed to address this issue in 2016, but this appears to have been indefinitely delayed. There has been no indication from the new Government as to whether a fundamental review of local government finance will be undertaken over the course of the current Parliament. The MTFS assumes that the distribution of funding to councils will not be subject to significant change prior to 2028/29.

- **Autumn Budget 2024** – The Chancellor is expected to deliver the Autumn Budget on 30 October 2024 which will provide an update on Government plans for tax and public spending based on the latest forecast from the Office for Budget Responsibility (OBR).
- **Social Care Reform** – It has been confirmed that planned reforms to the Adult Social Care system, which would have capped the lifetime contributions that individuals were required to make towards their care, has been cancelled. In preparing the forecast, it has been assumed that the funding already provided to implement the scheme will remain with authorities to fund current social care pressures.

## 2.0 Council Tax Support

- 2.1 Funding to support council tax discounts is received from Government through a grant included in the Settlement Funding Assessment. Every council is responsible for implementing a local scheme to offer council tax discounts to those residents who may have been eligible to this previously through Council Tax Benefit.
- 2.2 The Halton scheme uses as a basis the previous regulations relating to Council Tax Benefit, which ensures that support for claimants with disabilities, claimants with children, and claimants who are working is maintained. Residents who qualify for the scheme will have their liability reduced to 21.55% of the maximum amount paid.
- 2.3 Council Tax Support Grant is not separately identifiable within Settlement Funding Assessment. It is assumed the level of funding will move in line with the Council's overall Settlement Funding Assessment.
- 2.4 The MTFS assumes that the level of Council Tax Support given to existing claimants will remain at the rate of 21.55% for the period of the MTFS. It also assumes that Council Tax Support funding will not be shared with Parish Councils.

### **3.0 Council Tax Forecast**

- 3.1 For 2024/25 the council tax for a Band D property in Halton is £1,758.89 (excluding Police, Fire, LCR and Parish precepts), which is expected to generate income of £64.039m.
- 3.2 When setting council tax levels, higher increases reduce the requirement to make budget savings. However, there are other factors that need to be considered when determining the appropriate increase in council tax. These factors include:
- Halton has the fourth lowest council tax levels in the North West for 2024/25.
  - Halton's 2024/25 council tax is £55.67 (3.1%) below the average council tax set by unitary councils in England.
  - Inflation - the Consumer Price Index (CPI) as at September 2024 (latest available) is currently at 1.7% and the Retail Price Index (RPI) is at 2.7%.
- 3.3 The 2025/26 council tax base shows an increase of 304 Band D equivalent properties to a total of 36,713, assuming a collection rate of 97%. The increase in the tax base will result in an increase of £0.535m of council tax income.
- 3.4 In 2024/25 the Council utilised £0.234m of council tax surplus income to balance the budget. It is anticipated that there will be no surplus generated from council tax in 2024/25 to aid with setting the 2025/26 budget.
- 3.5 For the purposes of this strategy it is assumed the Council will apply a council tax increase of 2.99% in 2025/26. It is further assumed there will be a 2% increase for the adult social care precept in 2025/26. Beyond 2025/26, the forecast assumes an increase in council tax of 1.99%, plus an additional 1% for the adult social care precept.
- 3.6 Table 1 estimates the net amount of council tax income that will be generated by various percentage increases in Halton's Band D council tax for the next four years, assuming no change in council tax base beyond 2025/26. The council tax referendum limits have not yet been confirmed by government for 2025/26. The MTFs assumes that these limits will remain at 3% for council tax, plus an additional 2% for the adult social care precept in 2025/26, reducing to 2% for council tax and 1% for the adult social care precept for 2026/27 onwards.



**Table 1 – Additional Council Tax Income 2025/26 to 2028/29**

<b>Projected Increases in Council Tax Income</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>
0%	-	-	-	
1%	678	685	692	699
2%	1,356	1,383	1,411	1,439
3%	2,034	2,095	2,158	2,222
4%	2,712	2,820	2,933	3,050
5%	3,390	3,559	3,737	3,924

3.7 The Levelling-Up and Regeneration Bill, published on 11 May 2022 introduced legislation which allows authorities to increase the council tax payable on a dwelling where there is no resident, and which is substantially furnished (typically referred to as second homes), by up to 100%. The determination to apply the charge must be made at least one year before the beginning of the financial year in which the charge will be applied. The Council made this determination within the 2024/25 Budget report, approved by Council on 6 March 2024. The premium will therefore come into effect on 1 April 2025.

#### **4.0 Business Rates Retention Scheme**

4.1 The aim of the business rates retention scheme is to promote economic development and generate future growth in business rates. The Council will only be rewarded if it increases its local share of business rates above a pre-set baseline. Conversely if the local share of business rates collected falls below the baseline position, this would be to the Council's detriment.

4.2 An estimate of the Council's share of retained business rates will be provided to MHCLG in January 2025.

4.3 Following the cancellation of the Government's move towards increased business rates retention by local authorities, it has been assumed that the Liverpool City Region 100% business rates retention pilot will end in 2026/27, reducing the funding available to Halton by an estimated £6.296m. No allowance for transitional arrangements beyond the end of the scheme has been included within the forecast. The Liverpool City Region are currently lobbying Government for a long term extension of the rates retention pilot.

4.4 The business rates multiplier, used to calculate the rates charged on commercial properties, is updated each year by the Consumer Price Index (CPI) inflation figure for the previous September. If Government make the policy choice to freeze the multiplier to avoid increasing costs for businesses, they will compensate local authorities through additional grant funding.

4.5 The most recent forecast for business rates estimates that there will be a deficit for 2024/25 of approximately £1m, primarily due to higher than anticipated levels of charity and small business rates relief being awarded. This deficit will not impact on the Council's budget in 2024/25, but will need to be factored into

the 2025/26 budget position. The impact of the deficit means that the funding generated from business rates is likely to decrease between 2024/25 and 2025/26.

- 4.6 Table 2 shows the estimated business rates income received in each year of the forecast, assuming that inflation remains close to the Bank of England target of 2% during 2025/26 and remains there for the duration of the forecast.

**Table 2 – Business Rate Retention**

	<b>2024/25 £'000</b>	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>
Projected Business Rates Income	63,091	64,164	65,447	66,756	68,091
Business Rates Surplus / (Deficit)	2,472	(1,000)	0	0	0
Section 31 Grants and Top-Up Multiplier Adjustment	15,141	15,472	15,782	16,097	16,419
Top-Up Funding	4,519	4,007	4,087	4,169	4,252
<b>Forecast Business Rates Retained (Incl. Top-Up Funding)</b>	<b>85,223</b>	<b>82,643</b>	<b>85,316</b>	<b>87,022</b>	<b>88,763</b>
<b>Increase / (Decrease) in Business Rates Retained</b>	<b>0</b>	<b>(2,560)</b>	<b>2,673</b>	<b>1,706</b>	<b>1,740</b>

## **5.0 Dedicated Schools Grant Deficit**

- 5.1 The Dedicated Schools Grant (DSG) is a ring-fenced grant allocation which is used to fund a variety of education services, with the majority forming the Individual Schools Budget.
- 5.2 The conditions of the grant make clear that it can only be spent on the Schools Budget, so that any underspend must be carried forward to future years.
- 5.3 In recent years, significant pressures on high needs budgets have led to many local authorities recording deficits against the DSG. Proper accounting practice requires these deficits to be offset against the council's General Fund, reducing the funding available for other local services.
- 5.4 In 2019/20 the Government issued a statutory override, to be applied from the 2020/21 financial year, which requires DSG deficits to be carried forward to the Schools Budget in future years, and prevents this being funded from General Fund resources.

- 5.5 The statutory override is due to expire on 31 March 2026. Without further government intervention, DSG deficits will need to be funded from General Fund resources from 1 April 2026. Given the level of deficits on a national basis, with some authorities recording a DSG deficit greater than the balance on their general fund, it is highly likely that the expiry of the statutory override would trigger a number of Section 114 notices and applications for EFS.
- 5.6 Halton is currently participating in the Delivering Better Value in SEND Programme, which supports local authorities to improve services to children and young people with SEND and aims to deliver effective and financial sustainable SEND services. Table 3 shows a forecast of Halton's DSG deficit before any impact of the Programme, and if the Programme successfully achieves its aims.

**Table 3 – Forecast DSG Deficit**

<b>Year</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>2028/29</b>
Unmitigated Cumulative Deficit	£5.3m	£10.8m	£17.8m	£25.8m	£33.9m
Target Cumulative Deficit	£5.3m	£8.8m	£13.5m	£18.4m	£22.1m

- 5.7 Due to the high impact that the ending of the statutory override will have on a large number of authorities, the forecast assumes that this will be extended until at least 2029/30. If the statutory override does end on 31 March 2026, an additional £10.8m of spending pressures would need to be included within the 2026/27 budget.

## **6.0 Four-Year Financial Forecast**

- 6.1 The Medium-Term Financial Strategy (MTFS) provides a forecast of the increase in revenue expenditure that will be required over the next four years in order to maintain existing policies and programmes.
- 6.2 The Council's financial position over the course of 2025/26 – 2028/29 is extremely uncertain due to the ongoing political uncertainty surrounding the future of local government funding, the continuing increase in demand for key Council services, and costs within Adults and Children's social care increasing above the rate of general inflation. This forecast uses prudent estimates based on the information that is currently available. Figures should be treated with caution and will need to be continually updated as new information becomes available.
- 6.3 For the purposes of this forecast it has been assumed that there will be no major changes in the allocation method of Local Government funding within the next four years. It has been assumed that Halton will continue in the 100% business rates retention pilot scheme during 2025/26, but that this will cease in 2026/27.

- 6.4 It has been assumed that council tax will rise by 2.99% in 2025/26 which was the maximum allowed without a local referendum for 2024/25, plus an additional precept for Adult Social Care of 2%. For 2026/27 onwards it has been assumed that the referendum limit will revert to 2% with a 1% additional increase for the adult social care precept. For the final two years of the forecast, it is assumed that council tax will rise by 1.99%, plus the additional 1% precept. Any increase in council tax below these levels would lead to an increase in the required level of budget savings.
- 6.5 At September 2024, Retail Price Index (RPI) inflation stood at 2.7%, with Consumer Prices Index (CPI) inflation at 1.7%. 1.7% has been built into the MTFs for general contract inflation, with 6.4% inflation built into the forecast for social care contracts which are sensitive to increases in the National Living Wage.
- 6.6 For 2024/25, a pay rise of £1,290 pro rata was agreed for spinal column points 1 – 43, with a 2.5% pay rise agreed for all staff above this point. A 2% increase in pay budgets has been allowed for in each year of the forecast. If pay awards exceed or fall short of this level, the impact on the forecast will be as follows:

**Table 4 – Pay Forecast**

<b>Increase in Pay</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>2027/28 £000</b>	<b>2028/29 £000</b>	<b>Total</b>	<b>Difference to MTFs</b>
1%	987	999	1,007	1,015	4,008	(4,117)
2%	1,973	2,010	2,050	2,091	8,125	0
3%	2,960	3,045	3,136	3,230	12,370	4,246
4%	3,946	4,099	4,263	4,433	16,742	8,617
5%	4,933	5,173	5,432	5,703	21,241	13,116

- 6.7 Employer pension contribution rates have been set at 20% for 2025/26. The next triennial valuation is due to be undertaken by Cheshire Pension Fund during 2025/26, which will set the employer contribution rates for the following three years. For the purpose of the forecast, it has been assumed that the contribution rate will not change during 2026/27 - 2028/29.
- 6.8 It has been assumed that there will be no change to the grant funding received from Government, with the exception of the Services Grant. This grant has seen significant reductions in value over the past two years and it has been assumed that this funding will cease altogether in 2025/26. This has added £0.252m to the forecast.
- 6.9 The net revenue costs associated with the capital programme are included in the forecast. It is estimated that there will be an increase in costs of £0.619m in 2025/26, primarily relating to the opening of the new Halton Leisure Centre. Costs are forecast to increase by £0.090m in 2026/27 and £0.034m in 2027/28. The forecast assumes that any new capital projects which are approved over the medium-term will be self-funded through capital grants, capital receipts or will generate revenue savings to fund the cost of borrowing.

- 6.10 It is currently forecast that there will be an overspend of £20.942m against the 2024/25 revenue budget. The most significant pressures are caused by Children’s Services (£12.333m) and Adult Social Care (£3.658m).
- 6.11 Where current-year spending pressures are expected to re-occur in 2025/26, additional budget has been built into the forecast. £1.198m has been included for agency staffing costs within the in-house Care Homes, £2.433m for Adult Social Care packages, £2.326m for agency staffing costs within Children’s Services, £9.426m for Children’s Social Care packages, £0.644m for Home to School Transport costs, and £0.858m for additional costs within Legal Services related to increases in caseload.
- 6.12 The additional costs associated with the Children’s Service Improvement Programme Funding, presented to Executive Board on 24 October 2024 have been included in the forecast. The programme aims to stabilise the service and is anticipated to lead to decreases in the costs of placements and agency staff. £4.310m has been included in the MTFS during 2025/26 to reflect the costs of the additional established posts, with an additional £0.260m required in 2026/27. The Programme is expected to produce cost mitigation of £2.091m during 2025/26, with further cost reductions of £3.336m and £1.215m anticipated in 2026/27 and 2027/28 respectively. The progress of the Programme will be regularly evaluated and these figures will be updated in future forecasts.
- 6.13 Funding has been included within the forecast to account for an increase in demand for Adult Social Care packages based on historical data. £2.382m has been included for 2025/26, with an additional £2.499m, £2.621m, and £2.749m provided in the following three financial years. Rising demand for Adult Social Care services is major risk to the Council’s budget. The figures included in the forecast are based on the average increase in costs due to demand over the past four years. The following table shows the impact on the budget if demand is lower or higher than forecast:

**Table 5 – Adult Social Care Demand**

<b>Percentage Demand Increase</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>2027/28 £000</b>	<b>2028/29 £000</b>	<b>Total</b>	<b>Difference to MTFS</b>
3%	1,458	1,502	1,547	1,593	6,101	(4,150)
4%	1,944	2,022	2,103	2,187	8,257	(1,994)
4.9% (included in forecast)	2,382	2,499	2,621	2,749	10,251	0
6%	2,916	3,091	3,277	3,474	12,759	2,508
7%	3,403	3,641	3,896	4,168	15,107	4,857

- 6.14 There has been a significant rise in demand for placements within Children’s Services over recent years. Funding has been included within the forecast for these demand pressures, based on historical data of placement costs. This is

a highly volatile budget and there is a risk that the funding provided in the MTFS may be insufficient to meet future demand, although this should be mitigated by the work being carried out within the Children's Service Improvement Programme. The following table shows the impact on the budget if demand is lower or higher than forecast:

**Table 6 – Children's Social Care Demand**

<b>Percentage Demand Increase</b>	<b>2025/26 £000</b>	<b>2026/27 £000</b>	<b>2027/28 £000</b>	<b>2028/29 £000</b>	<b>Total</b>	<b>Difference to MTFS</b>
5%	925	972	1,020	1,071	3,989	(4,375)
7%	1,296	1,386	1,483	1,587	5,752	(2,611)
9.77% (included in forecast)	1,808	1,985	2,179	2,392	8,364	0
11%	2,036	2,260	2,508	2,784	9,588	1,225
13%	2,406	2,719	3,072	3,472	11,669	3,305

- 6.15 Growth of £1m has been included in the MTFS for 2025/26 to reflect the costs associated with services which will cease to be funded through the Public Health Grant and will instead need to be funded from the Council's core budget.
- 6.16 On 1 April 2025, the Youth Justice Service will cease to operate through a shared services arrangement, and will move to a model hosted by a single local authority. The new arrangement means that Halton will no longer provide ICT services to the organisation, leading to a loss of income of £0.232m.
- 6.17 An increase in demand for home to school and client transport has led to a significant increase in the amount spent on casual drivers within the service. From 2025/26, it has been determined that these staff should be employed on a permanent basis, requiring an additional budget of £0.350m per year.
- 6.18 During 2024/25, the Department for Education issued a statement on the conditions of the Dedicated Schools Grant to clarify that Special Educational Needs assessments and educational psychology services cannot be funded through the grant. These costs will now need to be met from the Council's own resources at a cost of £1.032m per year.
- 6.19 A combination of falling interest rates and lower cash balances than in previous years mean that the income received from investments is likely to fall significantly in 2025/26. £0.964m of growth has been added to the forecast to account for this in 2025/26, with £0.413m included for 2026/27, and £0.286m included for 2027/28.
- 6.20 During the 2023/24 budget setting process, the Council approved budget savings proposals which covered three financial years. These approved savings have been included in the forecast for 2025/26 with a value of £1.349m

and are detailed in Appendix 3. £0.217m of savings approved for previous financial years have not been achieved, and are unlikely to be achieved in future years. These have been included as growth items within the forecast for 2025/26.

- 6.21 In recent years, a significant amount of reserves have been utilised to help balance the Council's budget, whilst work was undertaken via the Transformation Programme to change the way services are delivered and establish permanent budget savings. As a result, reserves are now at a very low level and therefore the forecast assumes that £2m will be provided in 2026/27 in order to replenish reserves.
- 6.22 There have been an increase in housing benefit claims in relation to residents in supported accommodation in recent years. The Council awards full housing benefit for these residents, but is only reimbursed by the Department for Work and Pensions for the value of the rent in a standard property. This leaves the Council to pick up the additional costs associated with maintaining and managing these homes. An additional £0.100m is included in each year of the forecast for these costs.
- 6.23 On 01 February 2023, Council approved a Transformation Programme with the aim of making significant changes to the organisational culture and the way that services are delivered over a three-year period, enabling the Council to reach a long-term, sustainable financial position. The target budget reductions for the Programme totalled £20m between 2024/25 and 2026/27. As the forecast deficit has increased significantly over the past year, the Transformation Programme is currently being re-prioritised with the aim of delivering more savings over a shorter time period. Due to the uncertainty surrounding the direction of the Programme, at this stage no savings have been included in the forecast. Any future savings made by the Transformation Programme will reduce the Council's funding gap.

**Table 7 – Medium Term Spending Forecast 2025/26 – 2028/29**

Increase in Spending Required	Year on Year Change £'000			
	2025/26	2026/27	2027/28	2028/29
Removal of 2024/25 Transformation Targets	4,000	0	0	
2024/25 Approved Savings Unachieved	217	0	0	0
Capital Programme	619	90	34	1,000
Pay and Price Inflation	6,870	5,469	5,834	5,747
Effect of Interest Rates on Investments	964	413	286	0
2024/25 Overspend – Children's Services	11,752	0	0	0
2024/25 Overspend – Adult Social Care	3,631	0	0	0
2024/25 Overspend – Home to School Transport	644	0	0	0
2024/25 Overspend – Legal Services	858	0	0	0
Service Demand Pressures – Children's Care	1,809	1,985	2,179	2,392
Service Demand Pressures – Adult Social Care	2,382	2,499	2,621	2,749
Service Demand Pressures – Home to School Transport	350	0	0	0
Children's Improvement Funding	4,310	260	0	0
Cost Mitigation from Children's Investment	(2,091)	(3,336)	(1,215)	0
SEN Assessments and Psychology Services	1,032	0	0	0
Public Health Change to Grant Usage	1,000	0	0	0
Legal Salary Costs	100	0	0	0
Housing Benefit Subsidy Costs	100	100	100	0
Loss of Youth Justice Service Income	232	0	0	0
Additional Client Transport Posts	350	0	0	0
Contingency	1,000	2,000	2,000	2,000
Reverse 2024/25 10% Supplies and Services Savings	0	840	0	0
Reverse 2024/25 10% Property Maintenance Savings	0	247	0	0
Reverse 2024/25 10% Highways Maintenance Savings	0	459	0	0
Cease the Delivery of the School Meals Service	(247)	0	0	0
Other Known Additional Costs	213	554	18	19
Changes to Government Grant Funding	252	0	0	0
Replenish Reserves	0	2,000	0	0
End of Business Rates Retention Scheme	0	6,296	0	0
Agreed Savings	(1,349)	0	0	0
<b>Total Increase</b>	<b>38,998</b>	<b>19,876</b>	<b>11,857</b>	<b>14,007</b>



## 7.0 The Funding Gap

7.1 At this level of spending there is a significant funding gap with the forecast level of resources. Table 8 demonstrates the forecast gap between spending and forecast resources from 2025/26 to 2028/29.

**Table 8: Funding Gap 2025/26 – 2028/29**

	<b>2025/26 £'000</b>	<b>2026/27 £'000</b>	<b>2027/28 £'000</b>	<b>2028/29 £'000</b>
Increase in Net Spend Forecast (Table 7)	38,998	19,876	11,857	14,007
Decrease / (Increase) in Business Rates Retained (Incl. Top-Up) (Table 2)	2,580	(2,673)	(1,706)	(1,740)
Increase in Council Tax Base (Para 3.3)	(535)	(646)	(653)	(660)
Decrease / (Increase) in Council Tax Surplus (Para 6.4)	234	0	0	0
<b>Funding Gap Before Council Tax</b>	<b>41,277</b>	<b>16,558</b>	<b>9,498</b>	<b>11,607</b>
<b>Funding Gap After Estimated Council Tax Increase</b>	<b>38,055</b>	<b>14,478</b>	<b>7,316</b>	<b>9,317</b>

7.2 The table shows that total savings of £38.055m are forecast to be needed to balance the 2025/26 budget, assuming a 4.99% increase in council tax. This amounts to a 25.46% reduction to the 2024/25 net budget.

7.3 There are additional shortfalls of £14.478m, £7.316m, and £9.317m forecast from 2026/27 – 2028/29, bringing the total cumulative shortfall over the next four years to £69.166m. These figures assume a council tax increase of 2.99% from 2026/27 onwards.

7.4 This represents a significant challenge for the Council to balance its budget, and a shortfall of this magnitude can only be addressed through restricting current levels of spending, the urgent identification of budget savings, a review of the services which the Council provides to the public, a review of fees and charges, and an application to Government for Exceptional Financial Support.

## 8.0 Capital Programme

8.1 The Council's capital programme is updated regularly throughout the year. Table 9 summarises the fully funded capital programme for the next two years.

**Table 9 – Capital Programme**

	<b>2025/26 (£'000)</b>	<b>2026/27 (£'000)</b>
<b>Spending</b>	<b>19,460</b>	<b>9,847</b>
Funding:		
Prudential Borrowing	4,216	1,669
Grants	13,844	8,178
Capital Receipts	1,400	0
<b>Total Funding</b>	<b>19,460</b>	<b>9,847</b>

8.2 The current system of capital controls allows councils to support and fund the capital programme by way of prudential borrowing. Such borrowing is required to be:

- prudent
- affordable, and
- sustainable

8.3 The capital programme is underpinned by the Capital Strategy agreed by Council in March 2024.

8.4 The Council has used prudential borrowing provided that the cost of borrowing has been covered by revenue budget savings and the spending forecast continues this assumption.

8.5 In previous years the Council has been extremely successful in attracting capital grants and contributions. In this way, the Council has been able to undertake significant capital expenditure without financing costs falling on the revenue budget and this approach will continue.

## 9.0 Reserves and Balances

9.1 The Council's Reserves and Balances Strategy is attached in Appendix 2. It sets out the Council's strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

9.2 The level of balances and reserves will be reviewed as part of the budget monitoring and final accounts processes.

## **10.0 Conclusions**

- 10.1 The Council has used significant amounts of reserves over recent years to help provide a balanced budget position and avoid making permanent budget savings. This approach is no longer sustainable given the low level of reserves remaining and therefore it is essential that future spending requirements are managed in line with available budget. The forecast funding gap of £69.671m over the next four years will require the Council to make significant savings, if the Section 151 Officer is to avoid issuing a Section 114 notice. It is clear that, to achieve the level of savings required, it will no longer be possible for the Council to maintain the range and level of service provision that it currently offers.
- 10.2 This Strategy highlights that considerable budget savings will be required over the short-term in order for the Council to deliver balanced annual revenue budgets. In order for this to be done in a managed and sustainable way, it is highly likely that the Council will need to apply to MHCLG for Exceptional Financial Support to provide sufficient time to enable the Transformation Programme to enact changes across the whole organisation with the aim of bringing the Council's expenditure back in line with available funding. The additional costs of borrowing associated with EFS are not included within this forecast, but are estimated to be approximately £0.9m per year, for 25 years, for each £10m borrowed. These costs are subject to change caused by the movement in interest rates.
- 10.3 The Business Rates Retention Scheme carries further risks to the funding available to the Council over the medium and longer term. The lack of certainty provided by Government means that it is very difficult to predict both the timing and extent of the impact upon the Council's budget of potential future funding changes.
- 10.4 The future levels of savings required will be directly influenced by the decisions made concerning council tax increases. Council tax increases will reduce the level of savings required, although the legislative requirements regarding council tax referendums will restrict the Council's scope to implement these increases.
- 10.5 The Medium-Term Financial Strategy provides a framework and underlying assumptions which will be used in the preparation of the 2025/26 annual budget. It has been based upon information that is currently available, however, revisions to the Strategy will need to be made as new developments take place and new information becomes available.
- 10.6 Appendix 2 sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.

### RESERVES AND BALANCES STRATEGY

#### 1.0 INTRODUCTION

- 1.1 The following sets out the Council's Strategy in respect of the level of reserves and balances it wishes to maintain, by reference to the financial needs and risks associated with the Council's activities.
- 1.2 The overall strategy is to provide the Council with an appropriate level of reserves and balances in relation to its day to day activities and to ensure the Council's financial standing is sound and supports the achievement of its long term objectives and corporate priorities.
- 1.3 The Director, Finance will undertake quarterly reviews of the level of reserves and balances and take appropriate action in order to ensure the overall Strategy is achieved. The outcome of the reviews will be reported to the Executive Board and will be used to inform the Medium Term Financial Strategy (MTFS), the annual budget setting process and the final accounts process.
- 1.4 The Strategy concentrates upon the Council's key reserves and balances, being those which may potentially have a significant affect upon the Council's financial standing and its day-to-day operations.

#### 2.0 RESERVE BALANCES

- 2.1 As at 30 September 2024 the balance of the Council's general reserve was £5.149m. It has been the Council's policy to maintain general balances at a reasonable level, based upon the financial risks and challenges it faces. This is particularly important at the current time, given the increasing demand-led pressures upon Children's Services and Adult Social Care.
- 2.2 The Council has used reserves in helping to provide balanced budget positions, but the level of reserves is now such that using reserves in this way is no longer sustainable. There is an urgent need to start the process of replenishing reserves, although in the current climate and against the need to take on Exceptional Financial Support this makes replenishment difficult. This forecast assumes from year two reserves will be replenished by the value of £2m in each year.
- 2.3 In addition to the general reserve the Council holds earmarked reserves set aside for specific purposes. As at 30 September 2024 the balance of earmarked reserves was £51.739m, a breakdown of which is presented below. It should be noted that the Mersey Gateway reserve of £27.560m is ringfenced for the Mersey Gateway project.
- 2.4 Held within the Transformation Reserve is £6.432m, set aside to provide funding for towards meeting the Council's 2024/25 overspend position and a range of potential spending commitments in future years associated with

delivering the Transformation Programme. The remaining reserves are earmarked for specific, committed purposes and are therefore not available to support the Council's wider financial needs.

<b>Summary of General and Earmarked Reserves</b>	
<b>Reserve</b>	<b>Reserve Value £m</b>
<b>Corporate:</b>	
General Fund	5.149
Transformation Fund	6.432
Capital Reserve	0.499
Insurance Reserve	1.000
<b>Specific Projects:</b>	0
Adult Social Care	0.569
Fleet Replacement	0.328
Highways Feasibility Costs	0.964
Local Development Framework	0.494
Community & Environment	0.253
Mersey Valley Golf Club	0.483
Mersey Gateway	27.560
Various Other	0.668
<b>Grants:</b>	0
Building Schools for the Future	6.529
Public Health	1.881
Supporting Families Performance Payments	0.534
Children's & Education	0.741
Domestic Abuse	1.186
Enterprise & Employment	0.851
Various Other	0.767
	0
<b>Total Earmarked Reserves</b>	<b>56.888</b>

### **3.0 PROVISIONS**

#### **Sundry Debtors**

- 3.1 The Council makes provision for bad and doubtful debts based upon an annual review of outstanding debts profiled by age and the associated risks of non-payment, depending upon the types of debt.
- 3.2 Past experience has shown that after 43 days (the period covering the initial stages of recovery action) the likelihood of sundry debts being paid reduces significantly and therefore the risk of them not being recovered increases greatly. Increased provision will therefore be made for all sundry debts outstanding for more than 43 days.

- 3.3 The bad debt provisions in respect of sundry debtors at 31 March 2024 totals £5.760m.

**Council Tax / Business Rates (NNDR)**

- 3.4 Bad debt provisions are made in respect of Council Tax and National Non Domestic Rate (NNDR) debts. The bad debt provisions (Council Share) in respect of Council Tax and NNDR debtors at 31 March 2024 totals £17.402m.
- 3.5 The levels of bad debt provisions held are considered prudent in relation to the current level and age profile of outstanding debts. But they will be reviewed annually, particularly in the light of the prevailing economic climate. Therefore appropriate provisions will be made to minimise the risk of financial loss to the Council.
- 3.6 The Council is also required to hold a provision for NNDR valuation appeal claims. The provision as at 31 March 2024 totals £2.003m.

APPENDIX 3

2025/26 APPROVED BUDGET SAVINGS

Department	Service Area	Description of Saving Proposal	Savings Value £'000
Adult Social Care	Housing Solutions	Remodel the current service based on good practice evidence from other areas.	125
Adult Social Care	Voluntary Sector Support	Review the support provided by Adult Social Care and all other Council Departments to voluntary sector organisations. This would include assisting them to secure alternative funding in order to reduce their dependence upon Council funding. A target saving phased over two years has been estimated.	100
Adult Social Care	Care Management Community Care Budget	Attract £500k investment from the pooled budget (BCF) from 2024/25. Undertake work in years 1 and 2 to reduce reliance upon contracted services from 2025/26. Services are currently in the process of being redesigned on a "Strengths Based Approach" i.e. focused upon prevention.	1,000
Children & Families	Children's Centres	Review the operation of Windmill Hill Children's Centre.	22
Community & Greenspace	School Meals	Cease to deliver the school meals service.	12
Finance	Internal Audit	Restructure in light of potential retirements over the next two years within the Internal Audit Team.	50
Finance	Council Tax	Increase the charges applied when a court summons is issued by 30% (£23), to achieve full cost recovery over the three year period.	40
<b>Total Approved Savings</b>			<b>1,349</b>