APPENDIX 6

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 2023/24.

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:

(a) the robustness of the estimates in the budget, and

(b) 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 2023-24 REVENUE BUDGET PROCESS, SAVINGS, PROPOSALS, DELIVERY AND RISK ASSESSMENT

3.1 The background to the setting the 2022-23 budget was the easing of the previous decade of austerity, the deferral of the local government finance reforms (fair funding and business rates retention) and, Covid. The settlement for 2022-23 was positive but with considerable risk and uncertainty for future funding meaning that effectively, a one-year budget was set with significant risk over the remainder of the MTFS period. These background issues are still relevant for 2023-24 but with the added implications of the sharp increase in inflation during 2022.

3.2 A consequence of the Covid 19, changes with the government and, the economic impact on public finances of managing inflation, has been the further deferral of the reform to local government funding. This may now not take place until 2025-26 at the earliest. However, in December 2022 a Policy Statement was published. This gave information on the anticipated funding framework for 2024-25, meaning there is a now firmer basis for the first two years of the MTFS period. Beyond this uncertainty is still a factor and in addition issues may arise from the deferral of the adult social care reforms (deferred for at least two years - care cost cap and fairer cost of care).

3.3 The delay to the new funding regime means that the anticipated business rates reset will not happen in the next two years. This is estimated to have a negative consequence that we continue to manage from a reserve set aside (the estimated loss of resources is approximately £5m per annum).

3.4 Financial Monitoring Reports in 2022-23 have identified pressures in Families and the services under the management of the Deputy Chief Executive. Some of these are a result of Covid and may well not be on-going but there has been on-going growth in demand and rises in care prices. The services are undertaking work to manage these pressures.

3.5 The 2022-23 outturn forecasts indicate that the budget plans are balanced in overall terms, including the use of reserves albeit that some service area pressures must be managed going forward.

3.6 Since 2022-23, the settlement did not include further emergency support for covid-19. Therefore, any risks arising from variants and ongoing cost implications for services (e.g. social care, reductions in income etc) must be contained within budget and if necessary, services must take mitigating actions.

3.7 Covid 19 has had a significant economic impact on businesses and residents. Businesses will also be under pressure from high levels of inflation. This creates risks for the tax base and the collection rates. However, indications are that demand for Council Tax Support has reduced to pre pandemic levels, the Council Tax base has held up well and good progress in collecting both council tax and business rates is being made.

3.8 The Council has maintained a robust system of budget monitoring during 2022-23 with a detailed Financial Monitoring Reports presented monthly to the Strategic Leadership Team and Cabinet.

3.9 Although the 2023-24 strategy has been balanced, albeit with some planned use of reserves, as well as some efficiency savings. There is the need for further efficiency savings going forward and the Council has established an approach at the direction of the leader and under the Chief Executive, using a series of themed reviews. The success of this programme will be vitally important for future financial sustainability.

3.10 The budget includes a further contingency of £1.4m (excluding Inflation and Demand pressures) in 2023-24. This will provide some protection against unanticipated events and pressures arising from service demand.

3.11 The 2023-24 budget proposals include an Adult Social Care “Precept” of 2%, to meet adult social care spending pressures. Additionally, there has been a £6.145m net increase in the social care grant. The additional funding must mitigate demographic demand pressures and leave approximately £3m for other priorities/pressured. The People’s Budget has received significant demand pressure growth in recent budget cycles as well as the proposals for 2023-24 but the service area has had challenges managing withing the resources allocated over a number of years. Families have previously produced a financial sustainability plan with the objective of managing within the resources allocated to it. Due to the pandemic, the plan has not been updated for some time. The service must identify and quantify the drivers of demand and, if necessary, the actions it must take to manage the demand and operate within their budget. This must feed into an updated forward looking financial sustainability plan because social care pressures are the single biggest risk to the MTFS other than the general funding regime for the council.

3.12 The proposed Council Tax increase is 4.99% and comprises of a core Council Tax rise of 2.99% and an Adult Social Care precept of 2%. These increases are in line with the Government’s assumptions for Local Government. Clearly, the on-going pressure in social care indicates that the precept is necessary, although it would be preferable if social care was properly funded from grant/general taxation and not council tax (because the tax base is not a satisfactory source for local pressures). Increasing the core council tax, despite the rate of increase being well below the current rate of inflation, will have an impact on residents during the cost of living crisis (of-set to some extent for the most vulnerable through the Local Council Tax Support Scheme), however, there is a funding gap that needs to be resolved and if income is not maximised it is very unlikely it can be rectified in the future, and this would result in an increased funding on-going gap that will have to be resolved.

3.13 The budget proposals include assumptions about the level of pay and price increases. It is possible that these are understated. However, should costs be higher than provided for the Council would be able to meet the in-year cost from reserves if necessary and address the on-going implications in the 2024-25 budget.

4. OTHER ISSUES

4.1 There are several issues that members need to be mindful of, affecting the finances of the Council that are important to be aware of that are either not directly related to the General Fund Budget or issues that may have an impact at some point in the future.

4.2 School Budgets, many authorities have been experiencing pressures relating to Special Educational Needs and Disabilities, leading to a deficit in the Dedicated Schools Budget that has been material and, in some circumstances, could impact on a council's ability to produce a balanced budget. Waltham Forest's Schools Budget does have pressures. These are not significant in terms of our budget setting considerations. The Strategic Director of Families is working with schools to manage the situation. There is currently a statutory arrangement that means that there would not be an impact on the General Fund for several years in any case. However, this position might not continue, and it is important that the service ensure that any deficit position is managed urgently.

4.3 North London Waste Authority are in the middle of replacing a major processing facility at Edmonton. The reserves strategy anticipates there will be a rise in the NLWA levy towards the end of the decade and proves for smoothing the impact on the General Fund Budget. However, recent high inflation and rises in interest rates could have a negative impact. The Strategic Director of Place must consider ways in which this risk can be mitigated (e.g. initiatives to increase recycling or reduce residual waste).

4.4 The Housing Revenue Account is ringfenced from the General Fund. The HRA business plans of local authorities are coming under pressure from mould and fire safety spending as well as inflation and interest rates within the context of capping of rent increases. This could have an impact on the HRA's ability to set a balanced budget as the HRA has lower usable reserves/balances than the Council generally. Therefore, the Strategic Director of Place must seek efficiencies to mitigate their risks. Further it is possible that the pressures will impact on the ability to increase the HRA stock, which in turn could create general fund spending pressures (e.g. through homelessness and temporary accommodation cost rising).

4.6 The Government are taking an increased interest in the level of local authority reserves. This budget and its reserve strategy assume a level of supporting the budget and priorities from reserves. The position of reserves and their availability must be closely monitored throughout the year.

5. PROJECTED 2022-23 OUTTURN

5.1 It is anticipated that the 2022-23 outturn will be managed with service overspending mitigated through service initiatives and corporate action to balance the budget position by year-end, including the contribution from reserves.

6. RESERVES

6.1 The Council's agreed policy for General Fund reserves is a minimum of £10m and a maximum of £15m. Historically this was the broad range that the Council's external auditors felt prudent.

6.2 The Revenue Budget 2023-24 has been prepared on the basis that at 31 March 2023 the level of General Fund Balance will be £14.9m. It is considered that at c6% of the net general fund expenditure, this level of reserves is satisfactory to manage in year pressures should it be necessary to do so. If the Balance should be called on the Council must put in place arrangements to replenish the balance to the minimum level.

6.3 The Reserves Strategy is included as an Appendix 3 to this Budget and Council Tax Setting report.

6.4 The other reserves (earmarked) also provide protection against budget pressures that might arise during the year, manage the budget requirement over the MTFS and a source of investment in initiatives that can generate the savings forecast and realign resources to priorities. The Local Government Settlement indicates that there will be monitoring of Council reserves in 2023-24.

7 EXTERNAL PERSPECTIVE

7.1 The Council is mindful of the risks associated with the pressures on its finances and has commissioned several independent views over recent years. These include reviews by, Grant Thornton, Impower and an LGA Peer Review which looked at the general financial sustainability of the Council. The reviews reflect well on the strategic financial management of the Council and the overall financial sustainability.

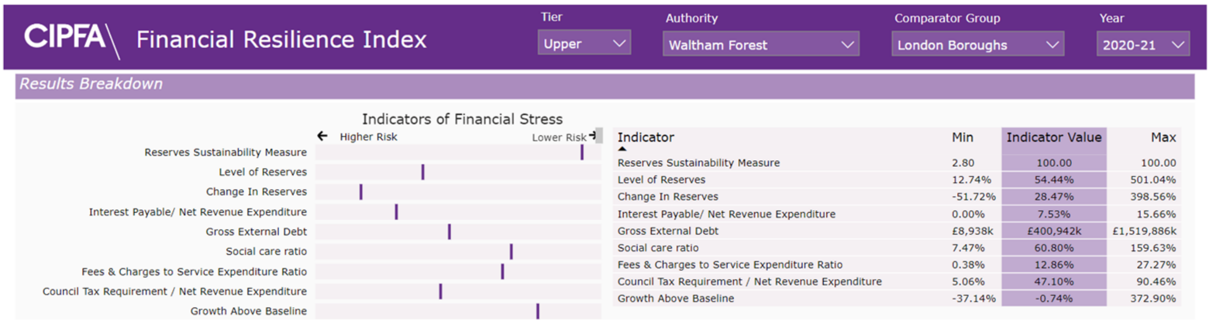
7.2 The LGA review, highlighted the Council's increasing ambitions (for example regeneration and growth) but it needs to be mindful of the implications and associated risks. These risks must be mitigated by robust business cases (for example the Fellowship Square/Accommodation Project, the development of the EMD site, the Families Hub and Sixty Bricks proposals). Related capital financing costs must be managed within the MTFS. However, the programmes rely significantly on capital receipts and partnership/development arrangements. It is essential that the progress of these schemes is closely monitored so action can be taken to mitigate any emerging pressures as soon as they arise. Secondly, the MTFS must adequately reflect increased demand. To date, the council has built in demand pressures as they are identified and made some provision within the medium-term financial planning assumptions. Further work needs to be done by services (particularly the Families Directorate) to robustly quantify and justify future demand trends and ways in which they can manage demand/services within the resources available.

7.3 Three reviews by Grant Thornton in 2017, 2021 and 2022 have all been consistent and show the Council's finances to be in a relatively strong position. Benchmarking with other boroughs indicated that there should be potential to make savings should the Council need to, as the funding regime becomes more certain.

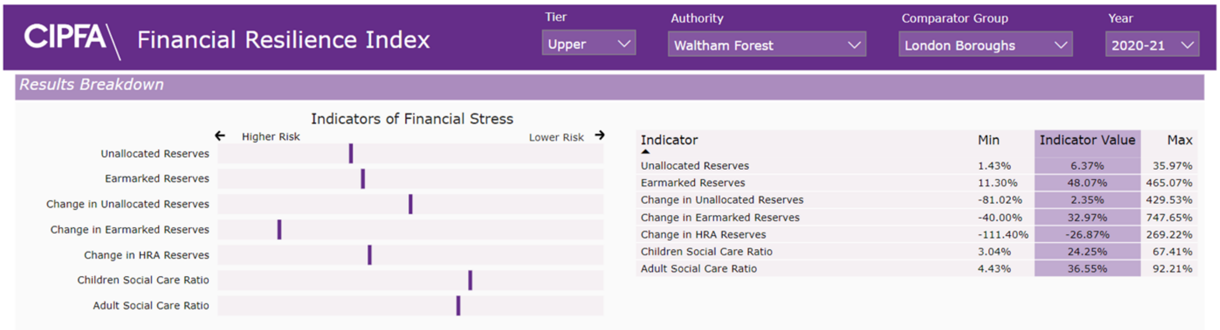
7.4 Another external perspective is provided by the CIPFA Financial Resilience tool. This allows us to look at our relative risk compared with other councils. Below is the index for 2020/21 (the most recent year available from the CIPFA December 2022 publication), comparing Waltham Forest with London Boroughs and statistical near neighbours.

7.5 The index shows the Council to be in a relatively good position, which has not significantly changed from previous years.

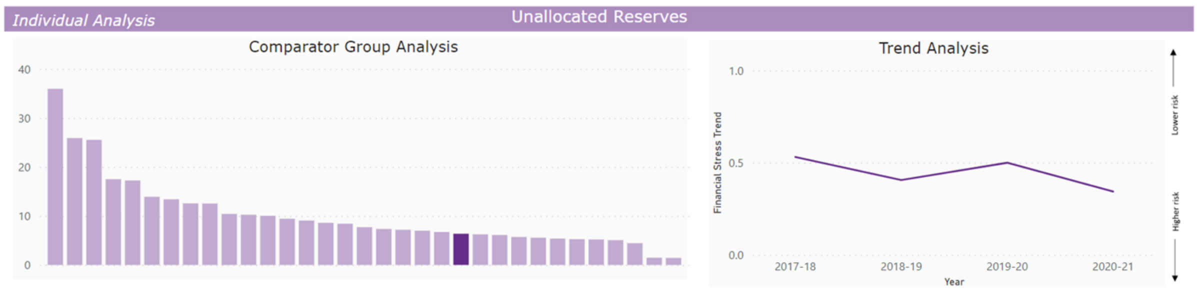
7.6 When comparing with similar boroughs (near neighbours), the Council looks relatively more resilient than when comparing with London Boroughs. However, reserves are modest compared to many. The Council has tried to use reserves to support improvement and post covid recovery. This approach aims to improve resilience; it is important that the council monitors the use of reserves and uses them effectively to support its priorities and strategies. If they have to be used to underpin service spending in the medium-term to ensure the budget is balance, then actions need to be taken to replenish the reserves.

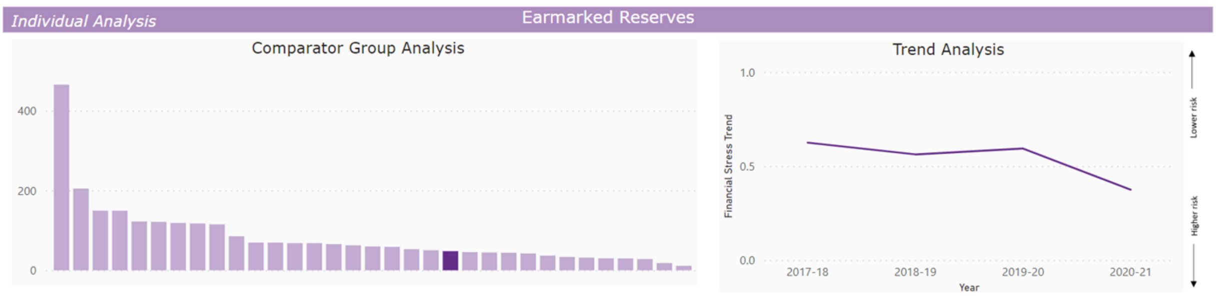


Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.80	100.00	100.00
Level of Reserves	12.74%	54.44%	501.04%
Change In Reserves	-51.72%	28.47%	398.56%
Interest Payable/ Net Revenue Expenditure	0.00%	7.53%	15.66%
Gross External Debt	£8,938k	£400,942k	£1,519,886k
Social care ratio	7.47%	60.80%	159.63%
Fees & Charges to Service Expenditure Ratio	0.38%	12.86%	27.27%
Council Tax Requirement / Net Revenue Expenditure	5.06%	47.10%	90.46%
Growth Above Baseline	-37.14%	-0.74%	372.90%

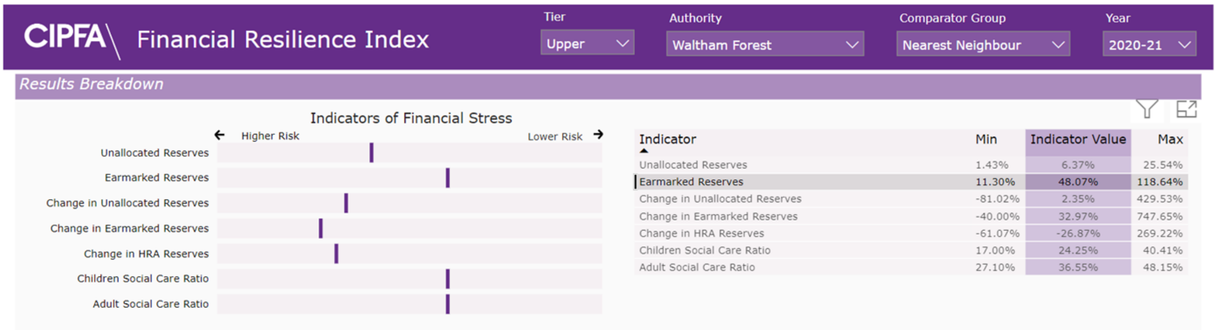


Indicator	Min	Indicator Value	Max
Unallocated Reserves	1.43%	6.37%	35.97%
Earmarked Reserves	11.30%	48.07%	465.07%
Change in Unallocated Reserves	-81.02%	2.35%	429.53%
Change in Earmarked Reserves	-40.00%	32.97%	747.65%
Change in HRA Reserves	-111.40%	-26.87%	269.22%
Children Social Care Ratio	3.04%	24.25%	67.41%
Adult Social Care Ratio	4.43%	36.55%	92.21%

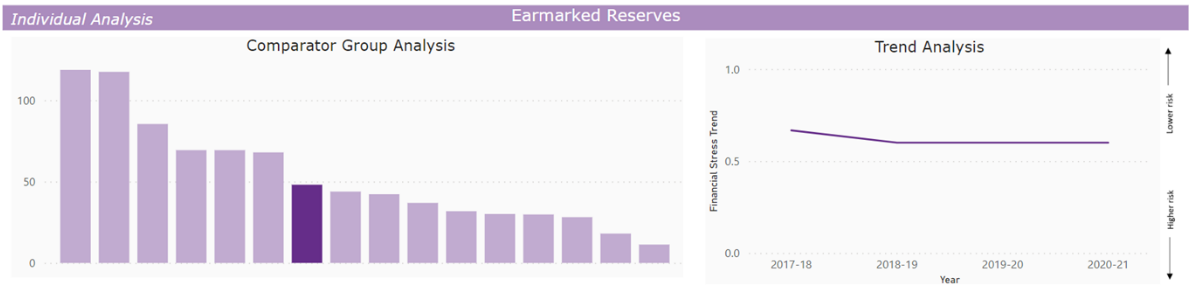




Indicator	Min	Indicator Value	Max
Reserves Sustainability Measure	2.80	100.00	100.00
Level of Reserves	12.74%	54.44%	142.99%
Change In Reserves	-51.72%	28.47%	398.56%
Interest Payable/ Net Revenue Expenditure	3.00%	7.53%	12.23%
Gross External Debt	£139,817k	£400,942k	£1,519,886k
Social care ratio	46.60%	60.80%	87.28%
Fees & Charges to Service Expenditure Ratio	5.47%	12.86%	15.65%
Council Tax Requirement / Net Revenue Expenditure	29.58%	47.10%	72.65%
Growth Above Baseline	-1.90%	-0.74%	24.41%



Indicator	Min	Indicator Value	Max
Unallocated Reserves	1.43%	6.37%	25.54%
Earmarked Reserves	11.30%	48.07%	118.64%
Change in Unallocated Reserves	-81.02%	2.35%	429.53%
Change in Earmarked Reserves	-40.00%	32.97%	747.65%
Change in HRA Reserves	-61.07%	-26.87%	269.22%
Children Social Care Ratio	17.00%	24.25%	40.41%
Adult Social Care Ratio	27.10%	36.55%	48.15%



7.7 A review based on the CIPFA Financial Management Model carried out in 2020 confirmed strong strategic leadership and management of the Councils finances broadly confirming the previous reviews. There can still be improvements in financial management amongst the wider cohort of managers and at an operational level. Work on addressing improvement is essential. There has been work within the finance service to develop the technical and professional approach as well as implementing the new Oracle system to improve financial administration and management within the Council's services. However, it is essential that there is a strong focus on financial management throughout the whole business of the Council.

7.8 The Finance Service also received a report from Mazars on the council's arrangements for internal control and progress is being made in addressing weaknesses through the reorganisation of the Council, the continued review of the control framework and the implementation of the Oracle system.

7.9 The Finance Service have produced the accounts in a timely manner (even through the Covid crisis), but the Council's external auditor (like auditors at many Councils) has struggled to complete audits within the expected timeframe. External audit is important because it provides reassurance that the plans are set within a fundamentally sound framework and the budget strategy, financial resilience and future financial plans have an extra layer of certainty. It is a concern that the external audit of the 2018/19 was only formally signed off in mid-2021 and the audits for 2019/20, 2020/21 and 2021/22 remain outstanding. Waltham Forest is not alone in this situation caused predominantly by the lack of capacity in audit firms to undertake the audits to the required standard in a timely fashion. The Council produces accounts to time and, although we have been confident that it is unlikely that the auditor would require material adjustments affecting the financial sustainability of the Council, the failure of the audits to be completed promptly adds to uncertainty. However, the auditors are making rapid progress. The finance team are working with the external auditor to catch up and is vital that this happens before the MTFS is refreshed for 2024-25.

8. FUTURE YEARS

8.1 The rapid rise in inflation over the last year and the post pandemic period has had an impact on the Country's economy and public finances. In effect, the Government has provided a one-year Local Government settlement and, although a helpful policy statement covering 2024-25 was issued, it is not possible to determine the extent to which there will be an impact on our budgets over the medium-term. Even in the short-term the Council may need to use reserves to manage price rises (for example).

8.2 The refreshed MTFS estimates a potential funding gap from 2024-25 of £11.6m and £1.5m in 2025/26 and the budget strategy proposed will allow officers and member's time to plan the future savings or solutions in a way that should help ensure that priorities are protected as far as possible, and savings delivered in efficient and innovative ways.

8.3 The relatively robust reserves, the Council's past track record and the relative position to other boroughs suggests that the Council would be in a strong position to rise to challenges should they arise.

9. CONCLUSION

9.1 The Strategic Director of Finance & Governance considers that the 2023-24 Revenue Budget proposals are overall robust, and the proposed financial reserves can reasonably be assumed sufficient. There are clearly risks associated with implementing some savings proposals, however, because of good planning and management of the budget over recent years it is reasonable to expect them to be delivered or mitigated. The project management and monitoring arrangements described in this report must be robustly applied to facilitate the delivery of savings and the identification of corrective action as necessary. There are also other potential risks in 2023-24 including demand pressures and price inflation. The level of reserves, together with the general contingency built into the base budget are at reasonable levels to meet unforeseen requirements during 2023-24.

John Turnbull
Strategic Director of Finance and Governance (Chief Finance/Section 151 Officer)
11 February 2023