

REPORT TO: Council

DATE: 4 December 2024

REPORTING OFFICER: Director of Finance

PORTFOLIO: Corporate Services

SUBJECT: Application for Exceptional Financial Support

WARD(S): Borough-wide

1.0 PURPOSE OF REPORT

1.1 To consider the recommendation from Executive Board that the Council applies for the Government's Exceptional Financial Support (EFS) arrangement.

2.0 RECOMMENDED: That;

- (i) an application for Exceptional Financial Support (EFS) to the Ministry of Housing, Communities and Local Government, as set out within the report, be approved;**
- (ii) the details of the EFS application be finalised by the Director of Finance in consultation with the Corporate Services Portfolio Holder;**
- (iii) all Directorates continue to implement control measures to reduce spending and help minimise the current year's overspend position;**
- (iv) subject to recommendation (i) a robust, multi-year budget savings plan be prepared as a matter of urgency, as required as part of the EFS application.**

3.0 SUPPORTING INFORMATION

Background

3.1 On 14th November 2024 Executive Board received the councilwide half year spending report. The report highlighted that spending to date was £8.9m above budget and was forecast to be £20.6m above budget by year-end.

3.2 This position comes despite having provided £7.7m of growth when setting the 2024/25 budget, in order to address those areas which had experienced significant financial pressures during the previous financial year. It had become apparent over the first half of the current financial year, that Children's and Adult

Social Care costs have risen dramatically, well above the rate of inflation and available budget, whilst demand for services also continues to rise.

- 3.3 The report also highlighted that the Council has only £11.6m of useable reserves remaining in order to fund the year-end overspend. This has arisen following a number of years of austerity and funding reductions, making it increasingly difficult to identifying service reductions and budget savings, which had therefore required increasing use of reserves in order to deliver balanced budgets.
- 3.4 Executive Board also received the Medium Term Financial Strategy 2025 to 2029. This identified budget funding gaps over the coming four years totalling £69.2m. The funding gap for 2025/26 is £38.1m a large part of which relates to the additional investment required to support the Children's Services Improvement Programme, and funding the ongoing councilwide overspends from the current financial year.
- 3.5 Given that the forecast overspend exceeds the available funding from reserves, and in order to provide sufficient time to develop budget savings proposals on this scale, Executive Board recommended that Council approve applying to the Government for Exceptional Financial Support (EFS).
- 3.6 Halton is not alone in reaching this position. To date twenty nine councils have been awarded EFS under the Government's arrangement, and it is expected that many more are close to the point of needing to apply.

Exceptional Financial Support (EFS)

- 3.7 The Government's EFS arrangement provides councils with exceptional permission to capitalise annual revenue costs and then fund them from long term borrowing (usually over 25 years) from the Public Works Loans Board (PWLB). EFS provides permission to borrow and does not provide grant funding.
- 3.8 The PWLB is an arm of HM Treasury from which councils usually borrow on a long term basis, at preferential fixed rates of interest, to fund capital expenditure. In the case of EFS, borrowing is being permitted on an exceptional basis to fund annual, recurring, revenue expenditure eg. staffing, utilities, and day to day running costs, rather than capital expenditure.
- 3.9 EFS Borrowing is only undertaken at each year-end, based upon what is required at that time to fund any current year overspend and to set a balanced budget for the following financial year.
- 3.10 The EFS approach will protect the Council's remaining reserves and enables budget funding gaps to be met temporarily in order to deliver balanced budgets,

while providing time for the Council to bring annual spending back in line with available budget funding.

- 3.11 The EFS arrangement requires councils to develop a robust Savings Plan to demonstrate how spending will be brought back in line with available budget funding over a period of perhaps 4 to 5 years. The more savings which can be achieved and implemented earlier, the lower the amounts of EFS borrowing which will be required each year, and therefore, the lower the ongoing cost of repaying the borrowing over the 25 year period.
- 3.12 When applying for EFS the Council must indicate the total amount of borrowing permission which it is likely to require over the period. However, as mentioned above, borrowing is only undertaken at each year-end, based upon what is required at that time. The Council only pays for the borrowing it actually needs to undertake each year-end.
- 3.13 In addition to seeking exceptional borrowing approval, an application for EFS may also include any other assistance which the Council considers may help its financial situation. This would usually include a request for permission to increase council tax above the current referendum threshold. In addition, the Council may wish to seek a change to the profile of the sharing of excess funding with the Department for Transport for the Mersey Gateway Bridge, in order to increase the Council's share at the next review point in three years time.
- 3.14 Going forward it is to be hoped that Government intervention for the sector, via improved grant settlements and/or changes to the local government funding regime will reduce the Council's need to borrow under EFS each year-end.

The EFS Model

- 3.15 The potential impact of EFS borrowing has been modelled alongside the Council's latest Medium Term Financial Forecast 2025 to 2029 (MTFS), and is summarised in the Appendix.
- 3.16 The model uses EFS borrowing to fund the forecast councilwide overspend for the current year, and also the remaining budget gaps for each of the following four years.
- 3.17 Target levels of savings have been used within the model, merely to demonstrate how the model might work over a five year period. However, savings proposals will need to be developed in detail with Members and approved for each year.
- 3.18 Therefore, the amount of savings which might be achieved in each year will be subject to on-going change, which will in turn impact upon the amount of EFS

borrowing required each year, and the period over which EFS is required to be used.

- 3.19 In addition, future changes to grant settlements, the local government funding regime, spending pressures, and the Council's MTFs position, will also impact upon the amount of EFS borrowing required each year.

EFS Application Process

- 3.20 If approval is given to apply for EFS, the process and timescale for the application would be as follows.
- December 2024 – Application made including a range of supporting information as requested by MHCLG.
 - February 2025 – “Provisional” EFS approval granted by Ministers.
 - March 2025 – On the basis of the “provisional” EFS approval, the Council will be able to fund the 2024/25 overspend and also set a balanced budget for 2025/26.
 - During 2025/26 MHCLG will commission the Chartered Institute of Public Finance and Accountancy (Cipfa) to undertake a Financial Resilience Review of the Council. This will include reviewing the Council's financial forecasts, spending pressure areas, savings plans etc. Cipfa will report their findings to MHCLG.
 - February 2026 – “Final” EFS approval granted by Ministers.

Conclusions

- 3.21 Given the Council's forecast outturn overspend, action continues to be taken across all Directorates to reduce spending and thereby minimise the overspend by year-end. However, a significant overspend is still likely to arise which may exceed the total reserves available to fund it.
- 3.22 The MTFs forecasts significant budget gaps over the next four financial years totalling £69.2m, with £38.1m falling in 2025/26. It is difficult to see how the Council could find savings of this magnitude in time to deliver a balanced budget for 2025/26.
- 3.23 It is therefore recommended that the Council approves an application for the Government's Exceptional Financial Support arrangement.
- 3.24 In the short-term this would enable the current year's overspend to be funded and a balanced budget to be set for 2025/26. Thereafter, EFS borrowing would provide the Council with the necessary time to continue to fundamentally transform its service delivery models, in order to bring spending back in line with available budget funding.

- 3.25 If approved, the EFS application will require preparation and submission as a matter of urgency. Therefore, it is recommended that the details of the application are finalised by the Director of Finance in consultation with the Corporate Services Portfolio Holder

4.0 POLICY IMPLICATIONS

- 4.1 None.

5.0 FINANCIAL IMPLICATIONS

- 5.1 The financial implications of an application for Exceptional Financial Support are as detailed within the report and appendix.

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 and capital programme support the delivery and achievement of all the Council priorities.

7.0 RISK ANALYSIS

- 7.1 The Council will not have sufficient reserves available to fund the forecast overspend in the current year. In addition, the Council is unlikely to be able to achieve savings of the magnitude forecast within the MTFS in order to set a balanced budget for 2025/26 and beyond.
- 7.2 An application for Exceptional Financial Support will enable the current year's overspend to be funded and a balanced budget to be set for 2025/26. Thereafter, EFS borrowing would provide the Council with the necessary time to continue to fundamentally transform its service delivery models, in order to bring spending back in line with available budget funding.
- 7.3 If the Council does not apply for Exceptional Financial Support, the Council's financial position is such that the Director of Finance will be required to issue a Section 114 Notice under the Local Government Act 1988.

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 CLIMATE CHANGE IMPLICATIONS

9.1 None.

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

10.1 None under the meaning of the Act.

