

## **POLICY AND RESOURCES COMMITTEE**

**Wednesday, 15 January 2025**

<b>REPORT TITLE:</b>	<b>EXCEPTIONAL FINANCIAL SUPPORT APPLICATION</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF FINANCE</b>

### **REPORT SUMMARY**

The report provides a brief update on the Council's critical financial position and requests the committee's support for the Section 151 Officer's application to the Ministry for Housing, Communities and Local Government (MHCLG) for £20m of Exceptional Financial Support in 2024/25.

At the end of quarter 2, the Council anticipated a potential adverse 2024/25 outturn position of £21.563m on Directorate spend. While the quarter 3 financial position is still being analysed, the outlook is not expected to improve and may indeed worsen due to the anticipated winter pressures on social care services.

The financial projections for this year mean we are now confronted with a significant risk of a considerable in-year overspend which the Council may not have the resources to resolve and a budget position which is not sustainable in future years. The Council is set to enter 2025/26 with severely diminished reserves, leaving it vulnerable to potential economic pressures, without adequate financial resilience to cope with any unexpected costs and no resources to fund the costs of required transformational changes.

As such, the Section 151 Officer has begun discussions with MHCLG and has submitted an initial request for Exceptional Financial Support.

This is not a key decision and affects all wards.

The report contributes to the Wirral Plan 2023-2027 in supporting the organisation in meeting all Council priorities.

### **RECOMMENDATIONS**

The Policy and Resources committee is recommended to:

1. Support the Section 151 Officer's application for £20m of Exceptional Financial Support to cover the deficit position for 2024/25 and a further potential £20m for 2025/26 to fund transformation costs of agreed savings.
2. Note the Section 151 Officer's intention to maintain the spending freeze and recruitment controls, to limit expenditure to only absolute essential items, for the remainder of the year and into 2025/26.
3. Instruct the Section 151 Officer in consultation with Directors to minimise spend, where possible.
4. Authorise the Director of Law and Corporate Services in consultation with the Section 151 Officer and other Directors to carry out consultation (both individual and collective), including the serving of any statutory notices or other notices (such as HR1 and Section 188 documentation), and to support and seek alternatives in respect of employment, as required.

## **SUPPORTING INFORMATION**

### **1.0 REASONS FOR RECOMMENDATIONS**

- 1.1 The Council's financial forecast indicates that nearly all available reserves and balances will be needed to achieve a balanced position by year-end. This approach is neither prudent nor sustainable, potentially leaving the Council vulnerable to unforeseen circumstances. Consequently, the Council will need to maintain the strict financial controls and the Section 151 Officer has sought support from MHCLG for exceptional financial support.
- 1.2 Financial support will also be required to assist in eliminating the ongoing structural deficit that exists. Achieving the necessary budgetary savings and transformation will require substantial upfront investments including one off costs, such as transformation expenses, early voluntary retirement and severance packages.

### **2.0 OTHER OPTIONS CONSIDERED**

- 2.1 Throughout the financial year several other mitigating actions have been implemented to help reduce the in-year adverse position. This mitigation has included:
- Full utilisation of all contingency funds (fully utilised in Quarter 2 forecast),
  - Council wide spend freeze (implemented from 9 September 24),
  - Maximising the use of capital receipts to finance transformational revenue expenditure. (all currently available capital receipts (£2.88m) have already been included in Quarter 2 forecast),
  - Reallocating earmarked reserves,
  - Use of general fund balances.
- 2.2 These actions have helped reduce, but not eliminate, the current financial pressure. The current forecast financial position is not a sustainable position going forward and will therefore require additional support to resolve.

### **3.0 BACKGROUND INFORMATION**

- 3.1 As reported at quarter 2, the Council now faces a severe financial challenge that demands immediate action. The Council anticipated a potential adverse 2024/25 outturn position of £21.563m on Directorate spend. After utilising the contingency budget and applying £2.88m of flexible use of capital receipts to fund transformational revenue spend, the adverse variance still to be mitigated stands at £14.861m. While the quarter 3 financial position is still being analysed, the outlook is not expected to improve and may indeed worsen due to the anticipated winter pressures on social care services.
- 3.2 Considering the present levels of earmarked reserves (forecast, non ring-fenced £5.7m) and general fund balances (£13.2m), we are now confronted with a significant risk of a considerable in-year overspend which the Council may not have the cash resources to resolve and a budget position which is not sustainable in future years.
- 3.3 If a local authority does not expect to be able to set a balanced budget, ahead of issuing a Section 114 notice, a Council 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. Any EFS will also come with conditions and the need for a clear financial recovery plan.

- 3.4 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.
- 3.5 Government will only grant EFS where they are satisfied that authorities will continue to mitigate and manage their cost pressures, 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.
- 3.6 The Council received EFS in 2020/21 & 2021/22 and the required borrowing to balance the books remains outstanding. Conditions for the EFS being granted included the appointment of an Independent Assurance Panel for 2½ years.
- 3.7 If the Council's application for EFS is not supported it is highly likely that the Section 151 Officer will issue a Section 114 notice. This notice is a mandatory obligation for a Section 151 Officer if the budget is, or is likely to become, unbalanced. Before issuing such a notice, the Section 151 Officer must consult with The Head of the Paid Service (in this case, the Chief Executive) and The Monitoring Officer (Director of Law and Corporate Services). This process underscores the severity of the financial challenges facing the Council and the potential legal implications if the situation worsens.
- 3.8 An application for Exceptional Financial Support represents a critical step in addressing the severe financial challenges currently facing Wirral Council.
- 3.9 The Council's formal indicative application is for:
- Exceptional Financial Support, from borrowing, of up to £20m in 2024/25.
    - To mitigate the critical in -year overspend, largely from increased demand for social care services.
- 3.10 Going forward, the Council also urgently requires Government financial assistance to support the one-off transformation costs essential for driving service reform and operational efficiencies. All reserve levels have been critically depleted, through ongoing efforts to mitigate budgetary overspends, leaving us without the necessary resources to fund crucial transformation initiatives. While the extension of the flexible use of capital receipts offers some potential relief, the process of generating sufficient funds through asset sales is inherently time consuming, creating a challenging cycle where the very investment needed to improve long term financial stability cannot be immediately pursued due to our current financial pressures.
- 3.11 Therefore further applications need to be considered for the following:
- Exceptional Financial Support, from borrowing, of up to £20m in 2025/26.
    - To bridge the ongoing gap in social care costs and fund the one-off transformational costs required to drive service reform and operational efficiencies.
- 3.12 A more accurate assessment of the level of support required for 2025/26 was not possible at the time of writing this report, as the details of the financial settlement for Local Authorities was not received until late December. Details of the proposed settlement have been discussed at the Policy & Resources Committee Finance Working Group.

## **4.0 FINANCIAL IMPLICATIONS**

- 4.1 The Council faces a critical financial position, as detailed within the body of the report, which requires immediate action. An application for Exceptional Financial Support has been made to MHCLG. Without additional financial support, there is significant risk of Section 114.
- 4.2 The submission of an exceptional financial support application itself does not incur direct financial costs. However, should the application receive approval, the Council would incur associated borrowing costs. The cost of this potential borrowing has been factored into the medium-term financial plan.

## **5.0 LEGAL IMPLICATIONS**

- 5.1 The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a balanced budget each year is a statutory responsibility of the Council. Sections 25 to 29 of the Local Government Act 2003 impose duties on the Council in relation to how it sets and monitors its budget. These provisions require the Council to make prudent allowance for the risk and uncertainties in its budget and regularly monitor its finances during the year. The legislation leaves discretion to the Council about the allowances to be made and action to be taken.
- 5.2 The provisions of section 25, Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the chief finance (s.151) officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves.
- 5.3 It is essential, as a matter of prudence that the financial position continues to be closely monitored. In particular, Members must satisfy themselves that sufficient mechanisms are in place to ensure both that savings are delivered, and that new expenditure is contained within the available resources. Accordingly, any proposals put forward must identify the realistic measures and mechanisms to produce those savings.

## **6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS**

- 6.1 There are no additional resource requirements directly from this report. However, if required, an Officer may need to consult with trade unions and relevant staff groups as required and in accordance with section 188(1A) of the Trade Union and Labour Relations Act (TULRCA) 1992). Statutory notices may also be required.

## **7.0 RELEVANT RISKS**

- 7.1 The Council's ability to maintain a balanced budget for 2024/25 is dependent on a stable financial position. That said, the delivery of the budget is subject to ongoing variables both positive and adverse which imply a level of challenge in achieving this outcome.
- 7.2 In any budget year, there is a risk that operation will not be constrained within relevant budget limits. Under specific circumstances the Section 151 Officer may issue a Section 114 notice. If the application for EFS is not accepted, a Section 114 notice being issued for the current year remains a significant risk.

## **8.0 ENGAGEMENT/CONSULTATION**

- 8.1 Consultation has been carried out with the Senior Leadership Team (SLT) in arriving at the governance process for the 2024/25 budget monitoring process and budget setting process.
- 8.2 Since the budget was agreed at Full Council on 26 February 2024, some proposals may have been the subject of further consultation with Members, customers and residents. The details of these are included within the individual business cases or are the subject of separate reports to the Committee.
- 8.3 Due to the current position, engagement with MHCLG has been initiated. Further updates will be provided to the Finance Working Group and at future meetings.

## **9.0 EQUALITY IMPLICATIONS**

- 9.1 Wirral Council has a legal requirement to make sure its policies, and the way it carries out its work, do not discriminate against anyone. An Equality Impact Assessment is a tool to help council services identify steps they can take to ensure equality for anyone who might be affected by a particular policy, decision or activity.
- 9.2 At this time, there are no further equality implications as these have already been identified for the proposals agreed and submitted. However, where the budget is unbalanced and further proposals are required, then there may be equality implications associated with these, and these will be addressed within the relevant business cases presented to the Committee.

## **10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS**

- 10.1 This report has no direct environmental implications; however, due regard is given as appropriate in respect of procurement and expenditure decision-making processes that contribute to the outturn position.

## **11.0 COMMUNITY WEALTH IMPLICATIONS**

- 11.1 In year activity will have incorporated community wealth implications. Consideration would have taken account of related matters across headings such as the following:
- **Progressive Procurement and Social Value**  
How we commission and procure goods and services. Encouraging contractors to deliver more benefits for the local area, such as good jobs, apprenticeship, training & skills opportunities, real living wage, minimising their environmental impact, and greater wellbeing.
  - **More local & community ownership of the economy**  
Supporting more cooperatives and community businesses.  
Enabling greater opportunities for local businesses.  
Building on the experience of partnership working with voluntary, community and faith groups during the pandemic to further develop this sector.
  - **Decent and Fair Employment**  
Paying all employees a fair and reasonable wage.
  - **Making wealth work for local places**

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## **APPENDICES**

None

## **TERMS OF REFERENCE**

This matter is being considered by the Policy and Resources Committee in accordance with section 1.2(b) provide a co-ordinating role across all other service committees and retain a 'whole council' view of [budget monitoring].

## **BACKGROUND PAPERS**

Exceptional Financial Support – Additional Supporting Information template  
2024/25 BUDGET MONITORING FOR QUARTER TWO (THE PERIOD TO 30 SEP 2024)  
2024/25 BUDGET MONITORING FOR QUARTER ONE (THE PERIOD TO 30 JUN 2024)  
BUDGET MONITORING AND BUDGET SETTING PROCESSES  
Office for Budget Responsibility (OBR), 'Economic and fiscal outlook' October 24.  
Pressure and Growth Proposals  
Savings and Income Proposals  
CIPFA's Financial Management Code

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Policy and Resources Committee</b>	<b>6 November 2024</b>
<b>Policy and Resources Committee</b>	<b>17 July 2024</b>
<b>Full Council</b>	<b>26 February 2024</b>
<b>Policy and Resources Committee</b>	<b>13 February 2024</b>
<b>Environment, Climate Emergency and Transport Committee</b>	<b>29 January 2024</b>
<b>Tourism, Communities, Culture &amp; Leisure Committee</b>	<b>2 February 2024</b>
<b>Children, Young People &amp; Education Committee</b>	<b>1 February 2024</b>
<b>Economy Regeneration &amp; Development Committee</b>	<b>22 January 2024</b>
<b>Adult Social Care and Public Health Committee</b>	<b>23 January 2024</b>
<b>Policy and Resources Committee</b>	<b>8 November 2023</b>
<b>Policy and Resources Committee</b>	<b>4 October 2023</b>