
Financial Sustainability Update

Governance & Audit Committee

Decision to be taken by: N/A

Date of meeting: 5th December 2024

Lead director/officer: Amy Oliver

Useful information

- Ward(s) affected: All
- Report author: Catherine Taylor, Financial Strategy Manager
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- Report version number: 1

1. Summary

1.1 This paper sets out the ways by which financial assurance is provided to the Committee, and actions being taken to ensure financial sustainability in the longer term.

2. Recommended actions/decision

2.1 That the Committee notes the arrangements to ensure financial sustainability.

3. Scrutiny / stakeholder engagement

N/A

4. Background and options with supporting evidence

4.1 Background

4.1.1 As members are aware, the financial outlook for the council is extremely difficult. The 2024/25 budget, approved in February this year, required the use of some £61m of one-off reserves to balance the budget, and the underlying gap was forecast to increase in future:

	2024/25 £m	2025/26 £m	2026/27 £m
Expenditure total	429.0	462.3	490.6
Income Total	368.0	371.9	378.7
Indicative Budget gap	61.0	90.4	111.9

4.1.2 The background to these budget gaps includes:

(a) a “decade of austerity” between 2010 and 2020 in which services other than social care had to be reduced by 53% in real terms. This has substantially reduced the scope to make further cuts;

(b) the covid-19 pandemic where we set “stop gap” budgets whilst we dealt with the immediate emergency. Budgets in 2021/22 to 2022/23 were supported by reserves;

(c) recent cost pressures, shared by authorities across the country. These include pressures on the costs of children looked after and support for homeless households, as well as the long-standing pressures in adult social care and the hike in inflation after the invasion of Ukraine.

(d) uncertainty about the future levels of funding available to local authorities. We do not yet have funding allocations for next year, which are expected in December (and likely to be for only one year). However, indications are clear that funding settlements will remain tight for the foreseeable future, and the new government will not be able to provide additional money to meet the funding gaps.

4.1.3 These issues are not specific to Leicester, and an increasing number of other authorities have already reached crisis point and issued a section 114 notice, which indicates that the authority cannot balance its budget. These include major authorities such as Nottingham and Birmingham.

4.1.4 We are not yet in the same position as these authorities, as we have built up reserves (the “Managed Reserves Strategy”) over several years that are now being used to balance budgets. However, these resources will inevitably run out, and further action is required for longer-term financial sustainability.

4.2 Actions to date

4.2.1 Work to reduce the projected budget gap and ensure continued financial sustainability is ongoing.

Savings programme

4.2.2 Our policy is to implement savings as soon as possible, in a continuous process throughout the year. Since the 2024/25 budget was set, this has reduced the budget (and hence the call on reserves) by £23.7m.

4.2.3 Consideration is currently underway for a further substantial savings package. It is anticipated budgets will be adjusted for the 2025/26 budget.

Focussed work on areas of demand pressure

4.2.4 One of the chief reasons for our budget gap is growth in the costs of statutory services, particularly social care, which have outstripped growth in our income.

4.2.5 Growth in the cost of adult social care arises from growth in the numbers of people needing support (who can be older or working age people), together with cost increases where people are already receiving care. This includes the substantial increases in the National Living Wage (NLW), which has increased by 40% in the last five years and service providers inevitable pass on the costs to funding bodies. Pressures will continue into the future with a further increase in the NLW and

changes to employers' National Insurance from April 2025. The adult social care department is undertaking a comprehensive review of operational areas and control mechanisms.

- 4.2.6 These measures have resulted in savings estimated at £48m per year, which exceeded the original target for the programme. This is a significant contribution to the reduced call on managed reserves in the current year's budget.
- 4.2.7 A parallel programme has been targeting pressures in children's social care. It has been identified that the main growth is in the number of extremely high-cost residential placements with private sector providers.
- 4.2.8 Additional demand within temporary accommodation is forecasting to be £7.3m above budget in 2024/25. Actions are being taken to mitigate these pressures, for example through the purchase of temporary accommodation. Without these actions it is estimated that overspend would have been around £13m.

Financial Controls

- 4.2.8 Additional controls have been put in place to ensure that all spending is essential, and represents value for money. These include:
- Strategic Procurement Panel scrutinising proposed new contractual arrangements before the tender process begins;
 - A new requirement for business cases to be approved by the before entering into new spending commitments of over £5,000, but where the full procurement panel is not required;
 - Controls on recruitment of staff which apply to all proposed recruitments, including those directly replacing a leaver. Additional controls have been placed on overtime above grade 7 and honoraria.

One-off resources

- 4.2.9 While one-off resources cannot provide a long-term solution to the underlying budget gap, work has been ongoing to identify additional funds which can "buy time" while other savings are implemented. This includes a thorough review of amounts held in reserves and a programme of property sales focussing on those with a ready market and low public impact of the sale.

LGA Peer Review

- 4.2.10 A financial "peer review" has been undertaken through the LGA. This involves officers and members from other local authorities and provides an overall assessment of the strategic financial position and decision making. The aim is to provide external assurance on our arrangements and identify any suggested best practice or improvements that can be identified from other authorities.

4.2.11 The peer review team members met with a range of Members and Council officers in late October, and findings are expected to be published in the coming weeks.

4.3 Financial assurance

4.3.1 There are established arrangements for providing regular financial assurance to Members. Some of the most important are set out below.

4.3.2 Revenue and capital budget monitoring is reported to Overview Select Committee on a quarterly basis. This provides members with updated forecasts on the financial position and actions being taken to manage areas of overspend. Capital monitoring also reports on the physical progress of schemes against planned delivery dates. Income collection is also reported twice per year, providing assurance on how services ensure key income streams are collected in full and on time.

4.3.3 Internal audit is a mandatory function that provides independent, objective assurance on operations, and is governed by national standards (the Public Sector Internal Audit Standards, PSAIS). Since August 2024, this has been provided by Veritau (before this date, it was provided by Leicestershire County Council). The internal audit charter and plan for the remainder of the current financial year were agreed by this committee in September 2024.

4.3.4 External audit is provided under contract – the Council's current external auditors, for the period 2023-2028, are Grant Thornton. External auditors

- provide an audit opinion on the annual financial statements, assessing whether they present a "true and fair view" of the financial position;
- consider whether there are sufficient arrangements to ensure value for money;
- present an Auditor's Annual Report to this committee summarising the findings of their audit work.

4.3.5 The most recent Auditor's Report was published in April 2024, and specifically discussed ongoing measures to ensure financial sustainability. This acknowledged that the use of reserves to balance the budget is unsustainable in the medium term, and that difficult decisions will be required in future budgets.

5. Financial, legal, equalities, climate emergency and other implications

5.1 Financial implications

This report is solely concerned with financial issues.

Signed: Kirsty Cowell, Head of Finance

Dated: 14 November 2024

5.2 Legal implications

The report is an update and for note are general comments below.

Under section 25 of the Local Government Act 2003, the Director of Finance (s.151 Officer) of the Authority is required to report on the following matters:

- a) robustness of the estimates made for the purposes of determining its budget requirement for the forthcoming year; and
- b) the adequacy of the proposed financial reserves.

There is also a requirement for the Authority to have regard to the report of the Director of Finance when making decisions on its budget requirement and level of financial reserves.

The Council has a statutory obligation to set a balanced budget for the forthcoming financial year, whilst also presenting a sustainable financial plan over the medium term. This can take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

However, a budget will not be balanced where it reduces reserves to unacceptably low levels and regard must be had to any report of the Director of Finance on the required level of reserves under section 25 of the Local Government Act 2003, which sets obligations of adequacy on controlled reserves.

Should the Council not be able to do this the Director of Finance (S151 Officer) has the powers to issue a Section 114 Notice under the Local Government Finance Act 1988.

Signed: Mannah Begum, Principal Lawyer, Commercial Legal, Ext 1423

Dated: 13 November 2024

5.3 Equalities implications

There are no direct equality implications arising from this report.

Signed: Sukhi Biring, Equalities Officer

Dated: 13 November 2024

5.4 Climate Emergency implications

There are no significant climate emergency implications directly associated directly with this report.

Signed: Aidan Davis, Sustainability Officer

Dated: 13 November 2024

5.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None

6. Background information and other papers:

Legal note on financial sustainability and budget oversight; presented to this committee on 18th September 2024

7. Summary of appendices: N/A

8. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)? No

9. Is this a “key decision”? If so, why? No