

Consideration, and response to, CIPFAs report ‘Learning lessons: what Section 114s can teach us’.

At the January 2024 meeting of the Governance and Audit Committee during discussions around the processes for setting balanced budgets a request was made to stress test the Council’s budget processes.

In particular, reference was made to a report written by CIPFA (Chartered institute of public finance and accountancy) dating to September 2022

<https://www.cipfa.org/cipfa-thinks/insight/learning-lessons-what-section-114-can-teach-us>

The Committee have asked for the review to be updated following the 2025/26 budget setting round.

Background

The term ‘Section 114’ refers to this section of the Local Government Finance Act 1988, part (3) of which sets out the duty of the chief finance officer (CFO) to

“make a report under this section if it appears to him that the expenditure of the authority incurred (including expenses it proposes to occur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure”.

Issuing the notice under Section 114(3) immediately suspends all financial activity apart from that which is necessary to maintain statutory duties; it also initiates a 21-day period for full council to consider the report and agree urgent action to start to remedy the situation. The authority’s external auditors and in Wales the Welsh Government would also be notified and could step in to provide advice and support.

CIPFA notes in its report, ‘It is unlikely that a Section 114 notice would be issued out of the blue – warnings may have been raised by the CFO, auditors or others before the point at which a notice becomes unavoidable. To issue a notice is a public admission that the authority cannot balance the books, and therefore indicates that warnings regarding the seriousness of the financial situation have been ignored. The severity of the position may not have been appreciated by those in leadership until it is too late, while the problems only become more severe the longer they are neglected.

Since 2018 eight English authorities have issued section 114 notices (some issuing more than one notice). Each notice has its own unique set of circumstances however the context in which this has occurred is important. English authorities were responding to a reduction in funding from central government in real terms of 10.2% from 2009/10 to 2021/22 (source institute for government). At the same time demands for services, particularly children’s and adult social care has increased substantially, whilst more recently the cost of providing services has risen due to high levels of inflation not experienced for decades. In response, a number of English local authorities have looked to source income from elsewhere. Some have

borrowed to invest to generate income in commercial property. The pandemic, changing societal patterns and rising interest rates have all combined to make it more difficult for local authorities to service their debt, contributing to lower financial resilience.

A record 30 English local authorities have been granted exceptional financial support (EFS) packages from UK government for 2025/26 (which allows a council to borrow to fund revenue expenditure, called a capitalisation direction). Under normal accounting practice this is not allowed as the debt must be repaid with interest and pushes costs of borrowing for current day-to-day expenditure into the future. EFS were first introduced in 2021 and were mainly for council's that had issued S114 notices. This has changed in recent years with well-run councils needing to seek support following real terms reductions in funding from government combined with high inflation costs and soaring demand for adult social care, child protection and homelessness services.

It is important to explain that there are clear differences in funding that exist between funding of councils in England and Wales. Welsh councils are funded from Welsh Government and have not seen the same levels of reductions in funding that English councils have faced.

Welsh councils do however face similar pressures from increased costs in delivering services to their English counterparts, and Welsh councils are more reliant on funding from Welsh Government than English council's are on the UK Government.

To date no Welsh council has issued a Section 114 notice or requested EFS.

Denbighshire's Self-Assessment

As requested by the Committee what follows in this appendix is an assessment of the Council's position against common themes and issues identified by CIPFA in reviews of English council's that have issued S114 notices from their learning lessons report and subsequent work. This assessment has been completed by the Statutory Officers (the Section 151 Officer, the Monitoring Officer and Chief Executive Officer).

Common Symptoms Identified	Consideration / Response
<p>Over-ambitious savings - over-ambitious savings targets that are not well evidenced. This is particularly concerning when historically records show savings have not been achieved.</p> <p>CIPFA advice - The savings process should be effective and engaging, with budget holders actively involved in identifying and delivering savings. Savings need to be identified by budget holders, who can then commit to delivering them.</p>	<ul style="list-style-type: none"> • Council has a good track record of achieving savings required as evidenced prior to the pandemic. Admittedly since the pandemic the test has been somewhat limited. Savings required in 2023/24 were in the main found through corporate initiatives. Positive progress been reported on delivery of 2024/25 savings which were ambitious. • Budget setting reports to Council explain the increased risk in setting future budgets, the 2024/25 budget contained £10.4m, and 2025/26 budget £4m of savings to be realised. Reserves provide a level of mitigation should savings not be deliverable in year, and therefore the strategy in balancing the budget therefore is to protect the reserves available as far as possible. • Steps have been taken to strengthen financial management across the Council. Progress in achieving savings has been tracked and regularly reported to Cabinet throughout the financial year. Performance indicators specifically related to budget have been set and monitored in every service plan. • To improve processes and consistency across services statements in support of all pressures and savings were introduced and included in the MTFP to document the calculations and any assumptions made. • The approach adopted by the Council is that Heads of Service propose and take responsibility for savings in conjunction with their Lead Member to ensure the savings process is effective and engaging. Furthermore, through management/leadership processes including regular 1-2-1 meetings taking place, delivery of identified savings are part of these discussions and processes. This will take place at Chief Executive and Corporate Director level, Corporate Director and Head of Service level, and Head of Service level with their managers. The Chief Executive, the Section 151 Officer meets each Head of Service and Corporate Director to discuss budgets and savings proposals.

	<ul style="list-style-type: none"> Corporate Executive Team (CET) meets weekly and considers savings updates regularly.
<p>Lack of a MTFP - even with the current fluid financial landscape, medium-term planning indicates an understanding and assurance that support financial sustainability.</p>	<ul style="list-style-type: none"> Council has an MTFP in place covering 3 years. This has been developed over the past year and is discussed regularly at Cabinet and at informal meetings including monthly Cabinet Briefing, weekly CET, fortnightly at Senior Leadership Team (SLT) and at the Budget and Transformation Board meetings. Council has a MTFS which is reported to Cabinet, Governance and Audit Committee and Performance Scrutiny Committee. Established a Transformation Programme that feeds into the MTFS and MTFP.
<p>Leadership - as financial sustainability becomes increasingly challenging it is essential for the leadership team to work together. Increasingly organisations that have been subject to intervention have experienced change at senior level</p>	<ul style="list-style-type: none"> Some Senior Officers were new into post last year. The Cabinet are also relatively new to their roles, with some turnover of Cabinet Members taking place during the last year. This represents an element of risk in the Council's ability to set future balanced budgets. Leadership and Culture important aspects for CEO. CET + Section 151 Officer work very closely as do SLT and Cabinet. This is reflected in our Well-Run Council Theme in the Corporate Plan. CET meets weekly, SLT fortnightly, CET and Cabinet meet fortnightly in the Budget and Transformation Board to discuss budgets and transformation agenda. Result is a committed and dedicated Leadership team balanced with some individuals that have worked for the Council for some years and have the history, knowledge and experience of the organisation, and other individuals who bring knowledge and experience from having worked elsewhere. Leadership team constantly striving towards our shared vision to create 'One Council' culture with strong visible leadership and effective management. Positive reports on Leadership from Performance Panel Assessment.
<p>Inadequate governance – the depth of financial problems indicates a</p>	<ul style="list-style-type: none"> The Councils Governance arrangements are considered appropriate. Good Governance goes hand in hand with strong Leadership.

<p>serious lack of oversight, with audit and governance committees not exercising their function and roles not understood.</p> <p>CIPFA Advice - Governance arrangements should be strengthened and include the ability to speak truth to power.</p>	<ul style="list-style-type: none"> • As a learning authority (part of our culture) we are always reflecting on how we can do things better. • Our shared vision is underpinned by 4 core values which include respect and integrity, and our 5 principles which includes Member and Officer relations. • All Officers are empowered by the CEO to discuss improvements and to challenge appropriately the way things are done. Similar relationship with Members – our culture is very much of openness and the ability to speak truth to power. • The role of the Governance and Audit Committee, and the Terms of Reference for the committee was reviewed and updated during the year. • The role of Performance Scrutiny Committee has evolved during the year with the committee now receiving regular reports that update MTFs / P and budget setting updates. • Admittedly the role for reviewing the Capital Plan over and above the Capital Scrutiny Group needs further consideration. • As required the Council produces an Annual Governance Statement. • Section 151 officer, Monitoring Officer and Head of Internal Audit all have direct access to Chief Executive Officer and to the Governance and Audit Committee. • All Members are able to attend Cabinet and raise questions on each agenda item before Cabinet makes decisions. • Lead Member for Finance, Performance and Strategic Assets regularly attends Governance and Audit Committee and Performance Scrutiny Committee.
<p>Weak financial management – the importance of good financial management in relation to reporting and monitoring provides assurance and</p>	<ul style="list-style-type: none"> • This is about doing the basics of financial management well which the Council has always done. • During the year a detailed monthly finance report covering revenue, capital, Housing Revenue Account, Schools, and the treasury (investments and borrowing) position is reported to Cabinet. • Each service is allocated dedicated support from the Finance Team who they work in

<p>evidence for effective budgetary decision making.</p> <p>CIPFA Advice - The quality of financial management should be assessed. Understand where your financial management strengths and weaknesses are. The CIPFA FM (Financial Management) Code is a good place to start.</p> <p>Elected members must receive training on financial matters, improving their understanding of complex issues. Ensure that members understand enough about financial matters to realise the seriousness and implications of the decision they are making.</p>	<p>partnership with on all aspects of financial management. Relationships have been developed into business partners which offer support and guidance but also offer appropriate challenge.</p> <ul style="list-style-type: none"> • See earlier comments regarding regular discussions at 1-2-1s regards savings etc which filters from CEO and Corporate Directors throughout the organisation – this is part of strong financial management as finance/savings important part of such discussions. • Overspends in 2023/24 and 2022/23 were identified quickly with actions to mitigate put in place to reduce the level of overspend in year. • See earlier comments regarding steps taken to strengthen financial management, tracking savings, budget performance indicators included in service plans, etc. Additional reporting was introduced in 2024/25 when a service is significantly overspending. Report to explore the reasons brought to the Budget and Transformation Board. • The CIPFA FM Code is reviewed annually with the results reported in the Annual Governance Statement. • Positive and supportive professional networks in Wales at all levels (Section 151 Officers, CEOs, Monitoring Officers, etc). Particularly in North Wales therefore mutual support / shared experiences. • Elected Members have received training, more could be arranged if necessary. Democratic Services committee agreed to recommend that Local Govt Finance and Budget Setting be mandatory training for all Members. Report to Council in May. • Elected Members were fully engaged in the 2025/26 budget process and understood the implications of decisions made. Regular workshops were held to update and explain pressures and savings. Wellbeing impact assessments continued to be updated throughout the year. As a learning organisation always willing to receive feedback from all Members. CEO and Section 151 Officer held
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	regular informal sessions with all groups to review budget setting proposals.
Lack of reserves – while the economic climate continues to be difficult, organisations that have little to no reserves face significantly higher risks	<ul style="list-style-type: none"> • Council has a modest amount of revenue reserves available. The trend in recent years is negative as the council has had to use reserves to cover in year unplanned overspends, that slowed in 2023/24, and looks set to not be the case in 2024/25. Though it must be noted that it has been corporate underspends that have been funding service overspending in 2023/24 and 2024/25. • Regular reviews of reserves and policies for use of reserves has been developed within the MTFS over the past year, which fed into budget setting. • Difficult to compare reserves across councils and draw meaningful conclusions as each council is different.
CIPFA Advice - Commercialism. The risks around commercial activities must be clearly understood, with effective oversight of council-owned companies. Make sure the risks are understood and there is effective oversight.	<ul style="list-style-type: none"> • The Council has undertaken some commercial activity with the setting up of Denbighshire Leisure Limited (DLL). Effective governance arrangements are in place to manage the contract, risk and oversight which are working well. A strategic governance board consisting of CEO, Monitoring Officer, Section 151 Officer, Leader, Lead Member for Finance, Chair of Governance and Audit Committee and a Scrutiny Chair. • Proposals were considered by Council in March to change the structure of DLL which were approved in principle subject to a number of practical and regulatory matters needing to be satisfied. In reaching its decision the risks of approving the proposal, and not approving the proposal were considered by Council, alongside external legal and financial advice that had been sourced. In the future DLL will not be owned by the Council but will continue to provide the same level of service to the Council. The strategic governance board will continue to oversee the management of the contract and the relationship between both parties. • Any future proposals would need careful consideration by the Council.
CIPFA Advice - Internal audit should review the effectiveness of financial	<ul style="list-style-type: none"> • The Internal Audit plan for 2024/25 was refocused to reflect the risks posed by the financial challenges faced by the Council.

<p>rules and processes, and knowledge of and compliance with financial regulations. Review your financial regulations.</p>	<p>Audits included the process for tracking savings, and reviews within services for assurance that savings have been achieved in line with service expectations and to measuring impact on performance.</p> <ul style="list-style-type: none"> • Internal audits would always consider compliance with financial and procurement laws and regulations. • Admittedly the regular review and update of Financial Regulations by Finance has not been completed recently. A new finance system was implemented during April 2024 which replaced all our financial IT systems. IA have been involved in the project as a critical friend to advise on risks in changing systems and processes. Additional audit work has been carried out in 2024/25 for assurance purposes because of the change in systems. The aim would be to review and update financial procedures in the later part of 2025/26 post implementation of new financial systems. Capacity within the Finance Team to complete the review is a concern.
<p>CIPFA Advice - A financial resilience review may be obtained</p>	<ul style="list-style-type: none"> • Audit Wales undertook a review locally and nationally across Welsh local government on financial sustainability. The results of which showed Denbighshire was no worse or better than other Welsh councils, that the Council engaged well in its budget setting processes but needed to move forward with its transformation programme. All actions have either been completed or are progressing. • Panel Performance Assessment as part LG and Elections (Wales) Act was undertaken in Sept 2024 with the process concluding in report to Council in February 2025. The Act places a duty on councils to arrange for a panel to undertake and respond to a corporate, organisational level assessment, of the extent to which the council is meeting its performance requirements. The assessment reflected positively on the Council. • The Budget and Transformation have discussed and agreed to obtain external independent review of financial resilience of services and cost comparators.