

**OVERVIEW AND SCRUTINY COMMITTEE (REGULATORY,
COMPLIANCE AND CORPORATE SERVICES)**



**MEETING HELD AT THE COMMITTEE ROOM, TOWN HALL BOOTLE
ON TUESDAY 12TH FEBRUARY, 2019**

PRESENT: Councillor Bradshaw (in the Chair)
Councillor Byrom (Vice-Chair)
Councillors Doyle, Grace, Daniel Lewis and Marshall

ALSO PRESENT: Councillor Paulette Lappin

42. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Brodie-Browne (and his Substitute Member Councillor Pugh), Councillor Jamieson (and his Substitute Member Councillor Jones) and Councillors Killen and McKinley.

43. DECLARATIONS OF INTEREST

No declarations of disclosable pecuniary or personal interests were received.

44. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the Minutes of the meeting held on 15 January 2019 be confirmed as a correct record.

**45. THE PRUDENTIAL CODE FOR CAPITAL FINANCE IN LOCAL
AUTHORITIES - PRUDENTIAL INDICATORS 2019/20**

The Committee considered the report of the Head of Corporate Resources that advised that the CIPFA Prudential Code for Capital Finance in Local Authorities was introduced following the Local Government Act 2003; that the Code detailed a number of measures/limits/parameters (Prudential Indicators) that were required to be set each financial year; and that the approval of these limits would provide a benchmark to measure actual performance against, to help ensure that the Council complied with relevant legislation, was acting prudently and that its capital expenditure proposals were affordable.

The report also advised that the Council was required to approve Prudential Indicators for the following items:

1. Capital Expenditure
2. Financing Costs/Net Revenue Stream
3. Capital Financing Requirement
4. External Debt

5. Treasury Management Indicators

These indicators were detailed in the report and summarised at Annex A to the report.

The report concluded that having established the Prudential Indicators, the Head of Corporate Resources would monitor them during the year and report on actual performance to the Audit and Governance Committee; and that an outturn report of performance against the Prudential Indicators would be presented to both Cabinet and Council following the financial year end.

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

A Member of the Committee commented on the operational boundary and the £10m borrowing reduction in 2020/21 and 2021/22 and the authorised limit as set out in paragraphs 5.2 and 5.3 of the report respectively.

RESOLVED: That

- (1) It be noted that the relevant Prudential Indicators will be revised as required and that any changes will be submitted to Cabinet and then to Council for approval; and
- (2) It be noted that the estimates of capital expenditure may change as grant allocations are received.

46. TREASURY MANAGEMENT POLICY AND STRATEGY 2019/20

The Committee considered the report of the Head of Corporate Resources that set out the following proposed policy and strategy documents, namely, the Treasury Management Policy, the Treasury Management Strategy and the Minimum Revenue Provision Policy Statement.

The report indicated that the Council had adopted CIPFA's revised 2017 Code of Practice on Treasury Management in the Public Services which recommended the production of annual Treasury Management Policy and Strategy Documents; that in addition, the Council had also adopted, and incorporated into both documents:

- (a) the requirements of the 2017 Prudential Code for Capital Finance in Local Authorities; and
- (b) an Investment Strategy produced in line with guidance from the then Office of the Deputy Prime Minister, concerning the investment of surplus funds. This set out the manner in which the Council would manage its investments, giving priority to the security and liquidity of those investments.

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The report also detailed that the CIPFA Code required that the Treasury Management Policy Document should outline the broad policies, objectives and approach to risk management of its treasury management activities; that the Treasury Management Strategy Document should set out specific treasury activities that would be undertaken in compliance with the Policy in 2019/2020; and Suitable Treasury Management Practices, setting out the manner in which the organisation would seek to achieve these policies and objectives, and prescribing how it would manage and control those activities.

The following Annexes were attached to the report:

Annex A	Treasury Management Policy
Annex B1	Treasury Management Strategy
Annex C	Minimum Revenue Provision Policy Statement

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

The report concluded by requesting the Committee to provide any comments to the Council that would be considered as part of the formal approval of the Treasury Management Policy, Treasury Management Strategy and Minimum Revenue Provisions Policy Statement.

Members of the Committee asked questions/commented on the following issues:

- The interest rate forecast and its predication on an assumption of an agreement being reached on Brexit between the UK and the EU; and whether the figures contained in the report could change before the Budget Council meeting on 28 February 2019
- The Council opting up to “professional status” in order to continue to have access to Money Market funds as an investment option as they are not available to retail clients

RESOLVED:

That the report setting out the following proposed policy and strategy documents, namely, the Treasury Management Policy, the Treasury Management Strategy and the Minimum Revenue Provision Policy Statement be noted.

47. CAPITAL STRATEGY 2019/20 AND FUTURE YEARS

The Committee considered the report of the Head of Corporate Resources on the Capital Strategy 2019/20. The report indicated that the Capital Strategy set out the long-term context in which capital expenditure and investment decisions were made and considered the impact of these

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decisions on the priorities within the Council's Core Purpose and Framework for Change Programme and the promises made in the 2030 Vision for Sefton; and that at the heart of the Capital Strategy was the Council's core objective to continue to deliver financial sustainability. As such a flexible capital investment programme was more important than ever as a method to stimulate and enable economic growth and strategic investment, ensuring best use of existing assets and of generating future income streams to pay for and deliver day to day services.

The report continued that the Council was continuing with its well developed, long-term financial planning practice and that the strategy contained details of the approach to the planned capital and investment programme up to 2023/24 and into future years; and that further information and guidance particularly regarding ongoing revenue implications was a key aspect of this and would be evaluated as part of the agreed governance process.

The Capital Strategy also outlined the Council's financial principles regarding risk, affordability and deliverability and the process of prioritising schemes and how financing decisions were made was explained alongside the agreed capital governance process in recognition of the strategic importance of the proposed programme. The Strategy also clearly identified the skills and knowledge required to ensure investment activities were subject to robust testing and due diligence; and it presented the full picture of long term liabilities and the debt, borrowing and treasury management decision making process. The aim of the Strategy was to give Members and the public assurance that the benefits the Council intended to deliver through its Framework for Change programme met the 2030 Vision and Core Purpose and were financially viable in the long-term.

Finally, capital proposals were considered within the Council's overall medium to long-term priorities and the preparation of the capital programme was an integral part of the financial planning process; and this included taking full account of all the revenue implications as part of the revenue budget setting process and the updated Medium Term Financial Plan (MTFP).

Attached as Appendix 1 to the report was the Capital Programme 2018/19 to 2020/21.

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

A Member of the Committee commented on benchmarking across the Liverpool City Region local authorities regarding Capital Strategies and asset disposals.

RESOLVED: That the Capital Strategy including:

- (1) the overview of the governance process for prioritisation, approval

- and monitoring of capital expenditure;
- (2) a longer-term view of capital expenditure plans;
- (3) an overview of asset management planning;
- (4) the authority's approach to commercial activities including due diligence and risk appetite;
- (5) expectations around debt and use of borrowing to support capital expenditure; and
- (6) the knowledge and skills in the authority in relation to capital investment activities

be noted.

48. ASSET MANAGEMENT STRATEGY AND ASSET DISPOSAL POLICY

The Committee considered the report of the Head of Corporate Resources that advised that the Asset Management Strategy and the Asset Disposal Policy documents set out the vision and aspirations for the effective management of the Council's corporate asset portfolio and the role it played in supporting and shaping the Council's agenda for the 2030 vision; that aside from its staff, the Council's next biggest resource was its land and property therefore it was vital that this resource was managed and used effectively and efficiently to ensure that the Council derived maximum benefit from its assets in support of its strategic aims and priorities; and that the Asset Management Strategy would provide a framework for the planning, prioritisation, management and funding of the Council's asset base whilst the Asset Disposal Policy would provide a framework for the disposal of the Council's assets as they were declared surplus and when deemed appropriate.

The Asset Management Strategy and the Asset Disposal Policy were attached as appendices to the report.

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

RESOLVED:

That the Asset Management Strategy and Asset Disposal Policy be noted.

**49. ROBUSTNESS OF THE 2019/20 BUDGET ESTIMATES AND THE
ADEQUACY OF RESERVES - LOCAL GOVERNMENT ACT 2003
- SECTION 25**

The Committee considered the report of the Head of Corporate Resources that indicated that to comply with statute, the Chief Financial Officer was required to report to Council prior to the approval of the budget and the setting of the Council Tax and to give assurance that the budget was robust and that there were adequate reserves and balances.

The report detailed that when preparing the budget for 2019/20 and the third year of the current Budget Plan, the Council's Strategic Leadership Board had led and been fully engaged in the process and had been challenged to ensure that services could be delivered within available funding and that estimates of expenditure and income were realistic; that as a result the Strategic Leadership Board had confirmed that the proposals made within this budget package both from the Public Sector Reform projects and service options were deliverable; that the proposed budget, due to the scale of the funding gap faced by the Council, had been prepared with careful consideration and full acknowledgement of the risk and uncertainty around both the proposals made and existing pressures faced by the Council; and that as this risk could not be fully mitigated e.g. as a result of the demand pressure facing both Adults and Children's Social Care budgets, it was important that these proposals were considered alongside the level of reserves held.

The following factors had been considered and were detailed in the report:

- Financial Environment for Local Government and Sefton MBC
- Impact of Previous Years' Budget
- Four-year settlement and Central Government funding
- Maintaining Service Delivery
- Resources to Deliver Change
- Inflation and Annual Cost Increases
- Anticipated New Demand Pressures
- Financial Management
- CIPFA Financial Resilience Index
- Management of Risk
- Capital Strategy and Strategic Investment
- External Advice

Regarding the Reserves Strategy 2019/20 the report also provided information on:-

- General Fund
- National considerations associated with the impact of the economic climate on Council costs and the anticipated reductions in Government funding

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- Local considerations associated with planned changes in service delivery methods / contracts, the impact of rising demand for services and legal challenges
- The sensitivity of budget setting assumptions and the significant earmarked reserves
- Management/Member actions associated with clear corporate/member messages and the three-year plan development

The report concluded that as a result of considering the issues contained within the report, it was the view that the budget proposed was a robust budget package and the opinion provided was in accordance with Section 25 of the Local Government Act 2003.

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

Members of the Committee asked questions/commented on the following issues:

- Caveats placed on short term Government funding options that were one-off in nature and that failed to meet the level of resources required
- The focus on early intervention and protection to combat the problems being experienced in Children's Social Care
- Regarding the CIPFA Financial Resilience Index, Sefton comparing favourably in relation to its budget flexibility and that it was relatively less reliant on grant income; but that it was at a higher risk of financial stress due to its level of reserves and balances at the end of 2017/18 being lower than other metropolitan councils.
- The Council's current budget planning assumption that it may have to save a further £15m per year over the next three years (£45m in total); but however, until there was clarity on reforms and the government 'promise' that the austerity programme would come to an end was understood, it was noted that this planning assumption could and would vary considerably
- The Business Rates pilot and New Homes Bonus and their impact on Council Tax

RESOLVED: That it be noted that:

- (1) the Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the issues of an opinion as to the robustness of the estimate made and the tax setting calculations; the adequacy of the proposed financial reserves; and the production of longer term revenue and capital plans; and
- (2) the Council will have regard to the matters raised in this report during the final stages of determining the budget for 2019/20.

**50. REVENUE AND CAPITAL BUDGET PLAN 2019/20 AND
APPROACH TO FINANCIAL STRATEGY 2020/21 TO 2022/23**

The Committee considered the joint report of the Chief Executive and the Head of Corporate Resources that provided information on the following issues in connection with the Council's forthcoming consideration and approval, on 28 February 2019, of the Budget Plan for 2019/20 and the level of Council Tax for 2019/20:

- An assessment of the Council's current financial position and approach to the 2019/20 Budget Plan and preparation for the new three-year budget period 2020/21 to 2022/23;
- Progress that has been made during the last year within the Council's Framework for Change programme;
- An update on the Government's announcement of resources that are available to the Council for 2019/20;
- The Council's current financial position and the assumptions built into the Medium Term Financial Plan;
- The proposed Budget for 2019/20; and
- The proposed Capital Programme for 2019/20.

As such, the report set out the financial strategy of the Council and the national and local financial context within which it was operating; indicated that the Council had a statutory requirement to remain financially sustainable and to balance its budget every year; that the Council's Framework for Change Programme was a comprehensive and ambitious programme that sought to support the delivery of the Council's core purpose; that as would be expected with a programme of this size and complexity that spanned a number of financial years, the detailed proposals had been and would continue to be the subject of change as they were developed and ultimately implemented; that within this context, a detailed assessment of the previously approved plans for 2019/20 had been undertaken to confirm their deliverability; and that in addition, a limited number of additional savings proposals had been identified to balance the budget and ensure long-term financial sustainability.

Regarding the national context and financial environment the report indicated that 2019/20 would be the tenth year of the Government's programme of austerity that the impact of continuing central government funding reductions on local government since 2010 was stark and had been widely reported; that the National Audit Office (NAO) had published a report into the financial sustainability of local authorities which summarised the legacy of funding reductions and outlined the main challenges facing councils over the short and medium term; that the NAO found that local authorities experienced an average 49.1% real terms reduction in central government funding between 2010/11 and 2017/18; but that for Sefton, central government funding had reduced by 51%

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compared to 2010 thus demonstrating the inequality in funding reductions across the country and the disproportionate impact on this Council.

With regard to local factors and the approach to sustainable financial planning the report indicated that Sefton, like many local authorities, had found the last ten years challenging in terms of the national funding conditions and in light of significant and growing pressures across a range of council services; that the Council had a proven track record of effectively managing its finances, meeting its financial objectives and delivering financial sustainability, however this was becoming increasingly difficult particularly bearing in mind that the 10 year austerity budget reductions for Sefton had resulted in a £233 million funding gap by the end of 2019/20 with a direct loss of 51% of government funding which equated to £722 per Sefton household; however, that in the Council's recent Peer Review the approach to sustainable financial management was a key strength in the management of the overall Council.

The report also provided information on the following matters:

- Framework for Change Programme - The delivery vehicle for the Council's core purpose, with financial sustainability at its heart, was the Framework for Change programme. The key pillars of the programme were Growth, Public Sector Reform, Service / Corporate Savings Options and Strategic Investment
- The 2018/19 budget position and impact on 2019/20 - the latest 2018/19 budget monitoring position for December 2018 reported a projected net service deficit of £6.760m. Best estimates of the impact on the 2019/20 budget of the current cost associated with the demand for front line services was that it would mean full year equivalent pressure of £7.800m. Provision would be made for this sum in the budget and Major Services Reviews would seek to reduce this pressure where possible. This, together with the final outturn position, would determine the final budget allocation to these services with Cabinet being presented with recommendations at the appropriate time.
- Review of Public Sector Reform Projects (PSR) - the total savings planned for 2019/20 from the PSR programme was £12.882m. However, the budget planning assumptions had now been revised to £9.517m, a reduction of £3.365m
- Medium Term Financial Plan Update (MTFP) 2019/20 – relating to: the Local Government Settlement for 2019/20 in respect of funding changes, winter pressures funding, social care support grant and business rates retention – levy account surplus; Key MTFP updated assumptions in respect of the business rates and Council Tax base, highways maintenance capitalisation, provision for pay inflation and pension increases, supplies and services, investment strategy, other changes and contingency
- Service Delivery Options - in order to support the revised funding gap, a number of additional Service Delivery Options were now proposed as specified in paragraph 6.3 of the report

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- Risk Management, Financial Monitoring and Sustainability - in order to reduce the risk of significant variance to the budget plan the Council had introduced a number of safeguards. Risk management had been reviewed and an enhanced risk management process adopted with new operational and service risk registers in place that fed into the overall corporate risk register
- Budget Planning 2020/21 to 2022/23 - 2019/20 was the final year of the Government's four-year fixed settlement period. This, coupled with the number of short term additional funding announcements over the past two years, meant that much was unknown regarding medium and long-term core funding from central government beyond 2019/20. The Council would develop a three-year budget from 2020/21 to 2022/23 and at present the estimated shortfall over the three-year period was £45m
- Budget 2019/20 specific issues relating to charges in respect of levying bodies; the proposed overall Council Tax increase that would be reported to Council following any recommendations from Cabinet; Dedicated Schools Grants; and other Government Grant notifications

The report concluded by detailing the summary of budget proposals for 2019/20; precepts; the Capital Programme 2019/20 to 2020/21; and seeking the Committee's comments to Cabinet which can be considered as part of the formal approval of the Budget Plan for 2019/20 and the Council Tax for 2019/20.

The following appendices were attached to the report:

- Appendix A Service Options 2019/20
- Appendix B Individual School Budgets 2019/20
- Appendix C Draft Council Budget Summary 2019/20
- Appendix D Fees and Charges 2019/20
- Appendix E Capital Programme 2019/20 - 2020/21

This report would also be considered by Cabinet and Council at their meetings to be held on 14 and 28 February 2019 respectively.

Members of the Committee asked questions/commented on the following issues:

- The budget option to discontinue the food waste collection service and its impact on landfill; and whether an environmental impact assessment had been undertaken in respect of this option
- The recent Government announcement of a further £1.3b cut to local authorities and its implication for the Council's budget forecast position
- The efficiencies that the Council had introduced since 2010, for example, agile working practices, to reduce pressures on the budget

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RESOLVED: That

- (1) the pressure arising from the 2018/19 budget and the resulting impact on the 2019/20 budget and the requirement for additional proposals to be approved in order to support financial sustainability be noted;
- (2) the update of the Medium Term Financial Plan for the period 2019/20 to 2022/23 be noted; and
- (3) the Head of Corporate Resources and his staff be thanked for the production of the detailed reports for consideration at this meeting and their overall efforts in formulating the Council's budget for consideration by Council.