

<b>Report to:</b>	Overview and Scrutiny (Regulatory, Compliance and Corporate Services)  Cabinet  Council	<b>Date of Meeting:</b>	9 February 2021  11 February 2021  4 March 2021
<b>Subject:</b>	Robustness of the 2021/22 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	(All Wards);
<b>Portfolio:</b>	Cabinet Member - Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

**Summary:**

To comply with statute, the Chief Financial Officer is required to report to Council prior to the approval of the budget and the setting of the Council Tax, to give assurance that the budget is robust and that there are adequate reserves and balances. The report is based on the proposals presented at this meeting.

**Recommendation(s):**

The Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the following issues:

- a) An opinion as to the robustness of the estimates made and the tax setting calculations;
- b) The adequacy of the proposed financial reserves; and
- c) The production of longer-term revenue and capital plans

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2021/22.

**Reasons for the Recommendation(s):**

The Local Government Act 2003, (section 25 as amended) requires the Chief Financial Officer to report formally on the issues contained within this report.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

None

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

Decisions taken as a consequence of this report will influence the Council's Revenue and Capital Budgets and Council Tax for 2021/22 and thereby shape the Council's financial plan for future years.

**(B) Capital Costs**

None

**Implications of the Proposals:**

The following implications of this proposal have been considered and where there are specific implications, these are set out below:

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> None
<b>Legal Implications:</b> The Council is required to set a Budget and Council Tax level on or before 10 March 2021 and must consider the comments of the Chief Financial Officer before that decision is taken.
<b>Equality Implications:</b> None

**Contribution to the Council's Core Purpose:**

Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

<b><u>Protect the most vulnerable:</u></b> See comment above
<b><u>Facilitate confident and resilient communities:</u></b> See comment above
<b><u>Commission, broker and provide core services:</u></b> See comment above
<b><u>Place – leadership and influencer:</u></b> See comment above
<b><u>Drivers of change and reform:</u></b>

See comment above
<b><u>Facilitate sustainable economic prosperity:</u></b> See comment above
<b><u>Greater income for social investment:</u></b> See comment above
<b><u>Cleaner Greener:</u></b> See comment above

**What consultations have taken place on the proposals and when?**

**(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services is the author of the report (FD 6287/21).

Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 4488/21).

**(B) External Consultations**

None

**Implementation Date for the Decision**

Following the Budget Council Meeting.

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**Appendices:**

There are no appendices to this report

**Background Papers:**

There are no background papers available for inspection.

## **1. Introduction**

- 1.1 This report has been prepared in accordance with the statutory requirements of the Local Government Act 2003 which requires the Authority to report to Members on the robustness of budget estimates, the adequacy of proposed reserves and the development of longer-term budget plans.

## **2. ROBUSTNESS OF BUDGET ESTIMATES**

- 2.1 The budget for 2021/22 has been developed in the midst of the global pandemic which has consumed and impacted all areas of Council business since March 2020 and will continue to do so for years to come. This not only applies to the impact on service delivery and the role of the Council, but on every aspect of financial management.
- 2.2 As such, developing a robust set of budget estimates for the financial year 2021/22 has been incredibly difficult and both these estimates and the risk profile of the Council will continue to change fundamentally over the next 12 months. The budget proposed however, represents the most accurate position that is available at the current time and like during the financial year 2020/21, regular updates will be required to be presented to Cabinet and Council in order that informed decision making can take place during the year in order to maintain financial sustainability.

### Core Council Budget

- 2.3 As a result of the pandemic, a number of Council services and budgets have been severely impacted during 2020/21 and will continue to do so into next year. The impact on the adult social care market, the significant increase in the Council's looked after children numbers and the financial pressure that this brings, the impact of an increased number and cost of packages for children with disability and home to school transport costs have all been key features of the budget in 2020/21 and this will continue into this next year and beyond- as is the impact on the Council's income generating activities. As the world remains in the middle of the pandemic, work is ongoing to evaluate the impact in each of these areas, however it is clear that this impact will continue to change and evolve over a number of years.
- 2.4 The difficulty that this presents to the Council's financial planning is whether these issues will continue and represent a new baseline position for the Council for years to come or represent a temporary position and will revert to pre-pandemic levels at some stage. At this stage Sefton, like all councils, is not in a position to understand this or make financial plans accordingly.
- 2.5 These budgets discussed in paragraph 2.3 represent a significant proportion of the Council's overall budget and are those that are subject to demand pressure and are difficult to monitor. The budget presented therefore re-baselines these (based on end of December 2020 figures) and provides additional support, in particular to the Looked after Children budget, to take account of pressure that came through in 2020/21 and to provide an additional provision of £2m for potential additional pressure that may arise in 2021/22. This has been the Council's biggest risk budget in recent years and will continue to be so in this next

year and this additional provision reflects the level of growth pressure experienced in previous years and is the best estimate at this stage. This maybe the subject of change however, especially with any further pressure that comes through in the final quarter of 2020/2021 that will have an ongoing impact into the 2021/22 financial year. This will also be exacerbated by the national lockdown announced by the Prime Minister on 4<sup>th</sup> January 2021 and which will cover the majority of this period, however due to the timing of the budget process this impact will not be known until April 2021 at the earliest.

- 2.6 Adult Social Care is the largest budget the Council has and as a result of the pandemic, this budget has been dislocated with each service area experiencing a range of different issues. The external market in particular has been disproportionately affected and which services are provided to whom during 2020/21 has changed drastically. Provision within the budget has been made for additional funding to be provided to the external market for an annual uplift in fees but from a financial management point of view, each area of the service will need continual and rigorous monitoring throughout the year to understand the financial impact of the pandemic and then make recommendations on how this should be reflected in the financial management of the service and the wider Council.

#### Ongoing impact of COVID

- 2.7 In developing this budget plan, consideration has been given to the ongoing impact of the pandemic. To a certain extent this has also been reflected by central government in the financial settlement that has been awarded to all councils, however due to the unprecedented impact of the pandemic and the impact it has had on the Council, neither central government nor the Council can fully understand and mitigate this- this will need to be tracked throughout the year, with the financial impact being understood, reported and then acted upon.
- 2.8 Within this budget plan, this ongoing impact is reflected with the following provisions being made:-
- For a further loss of income from fees, charges and sales income in 2021/22;
  - For the cost of reduced levels of council tax and business rates income from 2020/21 and 2021/22;
  - For an increase in the council tax bad debt provision and impact of business rates appeals; and
  - For unforeseen COVID related costs in 2021/22
- 2.9 Central government will provide the Council with support during 2021/22 in respect of some elements of irrecoverable council tax losses from 2020/21, a contribution to the negative impact on the council tax base for 2021/22, some support for the loss of income from sales, fees and charges income for the first quarter of the year and a one off grant allocation that is designed to cover the ongoing cost of responding to the pandemic.
- 2.10 In providing this settlement, central government has advised that the financial impact of the pandemic will be continually reviewed during the year and this will determine whether any further support is provided to councils. This will be based

on the impact of mass testing, impact and timing of vaccination roll out, future restrictions, economic conditions and other key metrics.

- 2.11 In addition to the key risk around increased demand for key Council services, the biggest financial impact and risk to the financial sustainability of the Council arising from the pandemic has been, and will continue to be, the impact on the Council's Collection Fund- i.e. what it collects from council tax and business rates. In developing this budget package, consideration needs to be given to both the impact arising from reduced collection rates from 2020/21 and those expected in 2021/22.
- 2.12 In respect of 2020/21, as at the end of December, it is forecast that the Council will need to fund approximately £4.7m of collection fund losses for that year. This reflects central government outlining that they will support council losses to the value of 75% from residents moving to the Council Tax Reduction Scheme and losses associated with non-payment of Business Rates. The largest sum within this figure however is in respect of non-collection of council tax income (£4.0m). No support will be provided in respect of this, with direction being that where a charge has been levied, then councils should collect via normal enforcement activity that income due. These factors present the Council with a sizeable funding gap that needs to be financed as part of this overall budget package and strategy-it is proposed that the Council's 2020/21 emergency fund income be used to fund this estimated £4.7m sum, with any residual amount being funded from temporary budget measures in 2021/22.
- 2.13 Estimates for council tax receipts for 2021/22 have been updated to reflect activity in 2020/21 (increased number of residents who are on the council tax reduction scheme and increased non-payment). This estimate of a forecast reduction amounting to £3.564m has been used to inform the Council's base position but will invariably change and will need to be updated throughout the year. Central government has outlined that it will provide support for this loss and at this stage it is considered that this support will be sufficient to meet the majority of this estimate but the impact on the longer-term financial sustainability of the Council cannot yet be determined and is a key risk.
- 2.14 With regard to Business Rates, central government have advised that they are currently not assuming that there will be any reduction in the income that is due to be collected by councils compared to March 2020. This however is not consistent with the feedback that is being provided by councils at this stage and based on experience of 2020/21 is not the experience in Sefton. It is estimated that based on the 2020/21 position that £3m of the Council's income will be at risk as businesses no longer exist or cannot afford to pay business rates. As a result, the Council's base position should in theory be reduced. The Council has chosen to follow central government guidance and the feedback is that this national position maybe reviewed mid-year depending on the actual experience across the country. To mitigate the risk that additional support is not provided this potential loss will be met by a number of temporary budget measures in 2021/22.
- 2.15 The impact of the pandemic on the Council's Collection Fund is clear (currently estimated at £7.8m across 2020/21 and 2021/22) and well publicised, but this also impacts on the provisions that the Council must make for bad debt and appeals against business rates charges. These are both increasing significantly, and

additional provision has been made for bad debt in respect of council tax and business rates appeals.

- 2.16 Moving into the financial year 2021/22 and developing a robust financial plan is unlike any previous year and will present the Council with significantly increased financial risk and volatility in all areas. The impact on adult social care and children's social care budgets is unprecedented and the Collection Fund is under extreme pressure. The estimates included in this budget plan are the most accurate that are available at this point in time, as are details of the support that has been made available to the Council- these estimates will change consistently through the year and will threaten the financial sustainability of the Council both in the short and medium term. Regular and rigorous budget monitoring will be required of all aspects of the council's budget and be reported to Cabinet and Council from the start of the year and to central government on a monthly basis as instructed.
- 2.17 The impact on the Collection Fund in both 2021/22 and beyond is the biggest risk however and continued support will be required otherwise the Council will need to find significant compensating savings (currently estimated at £6.6m) in order to continue to balance its budget in future years. As a result, and as in previous years, decisions will be required by Members during 2021/22 to ensure the in-year budget is balanced and budget proposals for 2022/23 are approved in sufficient time for implementation, again to meet the changing financial landscape. At this stage it is anticipated that without additional financial support the Council will face a funding gap over the next three years of £27m (excluding potential increases in Council Tax, loss of government grant or growth in key budgets).

#### Framework for Change

- 2.18 In February 2020, Council approved the three-year Framework for Change programme. It is considered that the aims and objectives of this programme remain correct and provide the basis for future financial sustainability. Based on the previous information in this report it will be important that this programme continues during 2021/22, especially in regard of those workstreams that will reduce the demand for Council services and its cost base and those that will modernise the Council, allow it to take advantage of new ways of working and technology and operate more effectively and efficiently. Depending on the financial impact of COVID in year and looking ahead to 2022/23 and beyond, these workstreams may have to be updated to deliver further savings to support financial sustainability, especially if pressure within Children' Social Care continues and ongoing support to the Collection Fund is curtailed.
- 2.19 Similarly, the Council's Growth and Strategic Investment Programme continues to progress. Some of this activity, notably the Strand and Sandway Homes, are now embedded within the Council but evaluating the impact of COVID and ensuring that appropriate financial oversight is applied to each will be critical to understand the impact on the Council's finances. Evaluating the impact and making informed decisions on each of these projects that support financial sustainability will be required during the year. A number of projects are at an earlier stage of delivery and during the year the Council will be integral to the agreement of the projects that will make up the Southport Town Deal. Due to COVID and the change in the financial risk profile of the Council, it will be critical that all decisions and proposals

are considered within this new financial environment, with projects not only being considered on their own financial merits but also the impact on the whole portfolio.

- 2.20 In advance of the proposed three-year Comprehensive Spending Review announced by the Chancellor for 2022/23 to 2024/25, the funding gap that could be faced by the Council across these three years is estimated to be £27m . To ensure financial sustainability, the Council should build on its previous success of setting multiyear budgets and develop budget proposals from the Framework for Change Programme to this value for implementation from 2022/23. A timetable to support this is included within the budget report.

#### Resources to Deliver Framework for Change 2020

- 2.21 A key factor that the Council will need to consider during the year will be its capacity to deliver this framework for change programme. The Council, its members and officers continue to respond to the pandemic, and this continues to take a significant amount of time and capacity whilst also ensuring business as usual services continue. The capacity to deliver a change programme as well as support recovery from the pandemic, that will drive the delivery of financial savings will inevitably require prioritisation. In the 2020/21 budget a cost of change budget was approved- this has now been fully utilised therefore any further provision will need to be linked directly to savings that can be generated.

#### **Factors to be Considered**

##### **Impact of Previous Years' Budget – 2020/21**

- 2.22 As a result of this financial environment, there has been an increased emphasis in developing this year's budget on ensuring that services start the year with an appropriate budget to meet current demand. In setting the budget for 2021/22, any service with a forecast budget shortfall at the end of December 2020, has seen this issue addressed in order that they can start the year with a sustainable budget. This equates to £7.7m required investment within Children's Social Care, Children with Disabilities, Home to School Transport and Locality Services.
- 2.23 This position may vary between the time of establishing the budget and year end especially when the ongoing impact of the pandemic and the lockdown announced on 4<sup>th</sup> January 2021 is factored in. As such the first monitoring report of 2021/22 will need to identify any emerging issues and required remedial actions.
- 2.24 The largest contributing factor to this position is the Children's Social Care budget. The number of looked after children requiring placements has increased from 558 (as at end of November 2019) to 618 at November 2020 and this has added significant pressure to the budget. This upward trajectory is being experienced by a number of local authorities and whilst the Council is taking steps through the demand management project to reduce this, the financial risk for the forthcoming year is significant. The pressure arising from 2020/21 has been met via this budget and as reported provision for a further £2m has also been built in for 2021/22.



## **Central Government funding**

### 2021/22

- 2.25 For 2021/22, the Council has received a one-year financial settlement. This reflects the uncertainty within the national economy as a result of the pandemic with the promise of a three-year comprehensive spending review for 2022/23 to 2024/25 to be delivered during 2021.
- 2.26 In terms of what would be a traditional Council budget, there is certainty around support to this. As has been discussed earlier within this report however, there remains two risks that will need to be monitored, reviewed and reported on both internally and as the year progresses to MHCLG. Firstly, is evaluation as to whether the COVID related support provided by central government will be sufficient to mitigate the impact that the Council is experiencing in some of its key budgets and the collection fund and secondly, whether additional support will be provided as the impact of the pandemic continues to be felt beyond Quarter 1 of 2021/22. These are key risks and the Council will need to be cognisant of the need to potentially make in year decisions depending on how discussions and dialogue with central government progress. This will be particularly important in respect of business rates income as at present no support has been offered for the inevitable losses that will be experienced.

## **Maintaining Service Delivery**

- 2.27 The scale of the budget shortfall that the Council has faced over the last decade has led to both service reductions and a transformational approach to all areas of activity in order to ensure that the Council's core purpose that was derived from the Sefton 2030 vision can be delivered. For 2021/22, the key challenge faced by the Council is that its demand led budgets, e.g. Children's Social Care and home to school transport, which were already under pressure will have seen that demand increase significantly on the back of the pandemic. There is an upward trend within each of these areas that needs to be met by the Council and whilst in this budget this has been met (based on end of December 2020 information) there is no room for variation on this.
- 2.28 These budgets represent 63% of the Council's net budget, and as further support is provided to the most vulnerable within the Council's communities, it means that compensatory savings or no investment will be possible in other key Council services. This position will continue into 2021/22 and if additional investment is required in these services it will need to be funded from compensatory savings elsewhere in the approved budget.

## **Inflation and Annual Cost Increases**

- 2.29 The Council, as in previous years, has provision for specific allocations to provide funding for contractual and other inflationary pressures such as annual pay increases. This reflects the latest information available having conducted a Council wide review of existing contracts and the likely impact of future pay

negotiations. Within this budget package however there continues to be no provision for general price inflation. Due to the severity of the financial challenge facing the Council, services will be required to manage any such pressure within their existing cash limits. The exception to this within the budget package is that provision has been allocated to support the increased cost of ICT contracts- the cost of the Council's major ICT systems has increased significantly in recent years and cannot be contained within existing budgets.

### **Financial Management**

- 2.30 The Council has an embedded process with regard to its Financial Management, and its reporting strategy reflects the monitoring undertaken by the Executive Leadership Team, Strategic Leadership Board, budget holders and the central Finance Team. Monthly reports are considered by Departmental Management Teams, Strategic Leadership Board and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue monitoring.
- 2.31 To support this approach and the inherent risk that is within the budget, a financial management review took place in 2019 and all service schemes of delegation will be updated prior to the commencement of the new financial year in order to further define and re-enforce the roles and responsibilities of Heads of Service, Budget Holders and finance staff. In addition, an updated set of Financial Procedure Rules were approved by Council in November 2020 and new budget monitoring forecasting system is being introduced across the Council during 2021/22.
- 2.32 It has been stated both within this report and also the wider budget report, that the level of financial risk facing the Council and indeed all local authorities is increasing significantly due to the ongoing pressure on demand led budgets and as a result of the pandemic and that the budget estimates contained for the Council over this Budget Plan period reflect the Council's ambition to deliver services that align with its 2030 vision, core purpose and ensure that it remains financially sustainable.
- 2.33 In order to manage these risks and objectives, the Executive Leadership Team, Strategic Leadership Board and Members will need to monitor each element of the Council's budget and demand for services forensically and in accordance with best practice in order that this risk can be mitigated as far as possible. Due to the level of risk that now exists within all areas of the councils budget this monitoring will be of even greater importance as will the speed that decisions are made in order to implement mitigating actions that will ensure financial sustainability.

### **CIPFA Financial Resilience Index and the CIPFA Financial Management Code**

- 2.34 The financial risks facing the Council in 2021/22 and beyond have been set out within this report and the wider budget report and as would be expected after the last decade and as a result of the pandemic, this level continues to rise. This is similar for most local authorities.

2.35 During the last three years and especially in the last 12 months, it has been widely publicised that a number of these authorities have encountered real financial difficulties with some issuing s114 notices. To support financial sustainability, CIPFA commenced the production 18 months ago of two key annual assessments that aim to evaluate a council's financial resilience and ensure that financial management is of the required standard across the organisation.

#### CIPFA Financial Resilience Index

- 2.36 CIPFA developed its Financial Resilience Index which is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. As previously reported there are 15 indicators which are compared to other local authorities - 7 of these indicators relate to the level of reserves held compared to net revenue expenditure, 5 relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and 3 on the reliance of specific types of funding (Government Grants, Council Tax and Business Rates).
- 2.37 At this time, the Index has yet to be updated to reflect the position as at the end of 2019/20. Therefore, the comments below relate to the position as at the end of 2018/19 published at the beginning of 2020.
- 2.38 When compared to other metropolitan district councils Sefton would appear to compare favourably (this being a relative conclusion when the overall financial environment within which the Council is operating is considered) in relation to its budget flexibility, i.e. relatively it spends a lower proportion of its budget on high risk services where the ability to reduce overall expenditure on these services is less due to rising demand. Sefton also compares favourably in that it is relatively less reliant on grant income, being more reliant on council tax income as an overall percentage of its funding.
- 2.39 However, the Index shows that Sefton is at a higher risk of financial stress (relative to others) due to its level of reserves (both General Fund Balances and Earmarked Reserves) at the end of 2018/19 being relatively lower than many other metropolitan councils. The level of Sefton's Earmarked Reserves being low at that time was partly due to the temporary use of Earmarked Reserves to fund the upfront payment of the Local Government Pension Scheme Deficit (reserves were replenished in 2019/2020). In addition, Earmarked Reserves are held for specific purposes so the level of reserves held by a local authority will be dependent on the specific circumstances that exist.
- 2.40 General Fund Balances aren't held for a specific purpose but to give the Council the ability to manage unexpected events. The Council has had a relatively stable level of General Fund Balances for a number of years, showing that in-year budget pressures, which have often been significant, have been managed without the need to call extensively on balances. However, the Index has highlighted the relatively low level of Sefton's General Fund Balances when compared to other metropolitan councils. The average level of balances held is in the region of 5.5% of net revenue expenditure versus Sefton's current level of approximately 3%. The strategy agreed last year to address the low level of balances is discussed further in Section 3.

## CIPFA Financial Management Code

- 2.41 In addition to the Financial Resilience Index, CIPFA have also developed a Financial Management (FM) Code. This FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities. This Code was launched in November 2019 and at that stage authorities were advised that they should introduce this in 2020/21 prior to full implementation in 2021/22.
- 2.42 The code is based on establishing Principles of Good Financial Management with these being translated into financial management standards. Each local authority has to then detail how it meets these standards and what improvements are required in order to ensure compliance.
- 2.43 As part of this budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation. This output will be shared with the Council's external auditor and will be presented to a forthcoming meeting of Audit and Governance Committee. Due to the pandemic this has not progressed as has been intended and the Council has received no direction either from CIPFA or the external auditor as to any expectations around the Code. Nevertheless, in Q1 of 2021/22 a review the Council's self-assessment will be made together with the development of an action plan that will be presented to Members of Audit and Governance committee and the external auditor in due course.

## **Management of Risk**

- 2.44 The Council manages risk on an ongoing basis at all levels of the organisation. In doing so it has developed policies, processes and systems that reflect its internal governance arrangements and the constitution. As far as possible this allows the Council to anticipate risks as they emerge. These processes are supported by the Council's Internal Audit and Risk Section, the annual review of Corporate Governance and the completion of the Annual Governance Statement.
- 2.45 Given these controls and processes, the likelihood of unanticipated budget issues has been reduced as far as possible, however as outlined in this document and the budget report, the financial risks facing the Council both in this year and future years continue to increase, especially as a result of the pandemic. In the event that these have a material impact on the Council's budget, a remedial action plan will be required in year- this is becoming increasingly difficult to deliver therefore the role of members in taking efficient and effective decisions informed by officer proposals will be key.
- 2.46 The Council, in addition to its monthly reporting process, now has an embedded process whereby it conducts, first quarter, mid-year and three-quarter year reviews. These are designed to enable members and officers to gain assurance on the deliverability of a sustainable budget and visibility of any other emerging issues. In 2020/21 these comprehensive reviews have been done each month as

a result of the impact of the pandemic and it is proposed that this approach continues into 2021/22.

### **Capital Strategy and Strategic Investment**

- 2.47 As part of the reform process of local government finance, the Council now receives a modest level of capital grant to support investment. This budget provides for the utilisation of this funding in 2021/22 and an indicative plan for future years.
- 2.48 The Council, as stated previously, has identified that its economic growth and strategic investment workstreams are key to supporting its 2030 vision and core purpose in addition to financial sustainability. With the reduction in capital resources that are available from central government, the Council will continue to explore opportunities and methods to generate funding to support these activities over the next 3-5 years. This approach is reflected in the budget report. Where a proposal to generate an income stream is made, the use of prudential borrowing will be considered, and in addition the use of capital receipts from asset maximisation, will be a key feature of the investment strategy. The recent reports to Cabinet and Council illustrate this and an updated Capital Strategy is included within the reports presented to members as part of this budget package
- 2.49 The Council, through its Treasury Management Strategy, uses a range of prudential indicators to manage and control the impact of these capital investment decisions. This will ensure that the risk and debt profile of the Council is appropriate based upon its financial standing and performance and that repayment is affordable.

### **External Advice**

- 2.50 The Council is supported in its financial activities by its External Auditor, Ernst and Young LLP and its Treasury Management Advisors, Arlingclose. Any material changes to Council policy, budget decisions or capital investment proposals will be undertaken in consultation with these organisations.

## **3. RESERVES STRATEGY 2021/22**

- 3.1 The Council holds a range of reserves that it uses and holds for different purposes. This report considers each in turn.

### **General Fund**

- 3.2 The General Fund Reserve is the Council's primary reserve. It exists to provide the Council with a contingency against unexpected events which could otherwise undermine the Council's sound financial standing. The fund should only be utilised to address short-term issues and should not be relied upon to finance ongoing budget deficits. Where it is used in the short term then this should be part of a plan to return it to a long-term equilibrium position in the medium term.
- 3.3 Determining the level of General Fund Reserve forms a key part of the Council's

medium-term financial strategy and will be informed by an assessment of the risks presented by:

- State of the economy (and its impact on Council costs / funding)
- Knowledge of future changes to the Council's responsibilities and funding allocations
- Specific risks relating to the changes in Council services

3.4 A historical benchmark minimum level that is used by a number of authorities is for the General Fund Reserve to be maintained at around 5% of the Council's net budget. This is below the level that has been maintained by the Council in recent years, as the CIPFA resilience index has identified. As a result, Sefton has a level of General Fund reserves that would place it at a high level of risk in terms of financial stress. The minimum reserve level of 5.0% that would be appropriate for the Council is referred to as the normal risk accepted. However, this rate will not take account of variable factors such as the economic climate, government policy and local factors, nor importantly the current pandemic. Therefore, alongside the normal risk the Council also needs to make an assessment of abnormal risks it may need to fund. These include the following elements.

## National Considerations

3.5 **Impact of economic climate on Council costs** - the current climate, especially as a result of the pandemic, will prove challenging in 2021/22 with the potential for business closures, lower than normal income levels from both council tax and sales, fees and charges and a shortage of alternative funding sources from partners. As Council funding is now more dependent on the performance of the local business sector and the raising of council tax it is more exposed to the consequences of national and local economic conditions.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2021/22 reflects the one-year spending review announced in November 2020 and the Provisional Local Government Finance settlement received on 17 December 2020. In addition, the Council has been notified of other grant allocations for 2021/22. These funding levels are included in the Budget Plan. At this stage, it is not expected that there will be any impact on funding available in 2021/22 as a result of Brexit, however this will inevitably impact upon future years' allocations.

## Local Considerations

3.7 **Planned changes in service delivery methods / contracts** – The Council continues to review the way in which it delivers services in order to ensure best practice and value for money for its residents. In addition, the Framework for Change 2020 programme will involve significant transformational change as to how services are provided. This will result in changes to working practices, commissioning relationships and governance arrangements. As these become embedded within the organisation this should reduce the risk to the organisation however there is still a degree of risk that needs to be allowed for.

- 3.8 **Impact of Rising Demand for Services** – The Council continues to face increasing demand for its services. This was the case pre pandemic and this has increased further on the rise of COVID-19. Investment has been included in the 2021/22 budget, however as discussed in this report there is still significant risk that needs to be allowed for particularly in respect of Children’s Social Care and Education Excellence. Based on the financial position as at the end of December 2020, these budgets will be re-aligned for 2021/22, however as discussed in this report there is still significant risk that needs to be allowed for.
- 3.9 **Legal Challenges** – The Council from time to time make decisions (policy and operational) that could be subject to challenge or appeal from affected bodies. It is therefore prudent for the Council to have some capacity to safeguard against such challenges.

## **Budget Setting Assumptions**

- 3.10 **Sensitivity of budget assumptions** - The Council’s budgets for 2021/22 are underpinned by a number of assumptions regarding the prevailing rates of inflation, interest earned and cost growth. While these estimates are believed to be prudent some costs are outside the Council’s control, particularly in the medium term.
- 3.11 **Significant earmarked reserves** – The Council maintains funding in earmarked reserves. These include reserves for future potential insurance claims and funding that Members have set aside for specific purposes. The presence of these reserves reduces the scale of risk the General Fund has to guard against. It should be noted that these reserves have been set up for specific purposes and as such their use will be in accordance with that approved. These reserves are reviewed as part of each budget cycle and the annual closure of accounts process.

## **Management / Member Actions**

- 3.12 **Clear Corporate / Member messages** - The Council and its senior management have very clear expectations regarding the delivery of a ‘balanced and sustainable budget’ and have instigated appropriate monitoring and reporting processes to ensure any emerging pressures are promptly addressed. This reduces the risk to be managed through the General Fund.
- 3.13 **Three Year Medium Term Financial Plan and One-year budget** – Given the funding uncertainty facing the Council and the increased demand for Council services the Council has developed a three-year Medium-Term Financial Plan and a Framework for Change 2020 programme. These plans will allow the Council to develop proposals that will meet the budget requirement when the reform of local government finance and the comprehensive spending review have been completed. Due to the pandemic however the assumptions that are contained in each of these documents will need to be the subject of continual update throughout the year.

3.14 A summary of the adjustments made for the above factors is set out in the table below.

<b>Factors Considered</b>	<b>Risk Impact % of net budget</b>	<b>Impact on General Fund Balances</b>
		<b>£m</b>
<b>Normal Risk Level (minimum level)</b>	<b>5.0%</b>	<b>11.0</b>
<u>National Considerations</u>		
Impact of economic climate (inc pandemic) on Council costs and Collection Fund income	2.5%	5.5
Anticipated reductions in Government Funding	0.5%	1.1
<u>Local Considerations</u>		
Delivery of planned changes in service delivery methods/contracts	0.5%	1.1
Costs at risk from potential legal challenges	0.5%	1.1
Rising demand for services	2.0%	4.4
<u>Budget Setting Assumptions</u>		
Sensitivity of budget assumptions	1.0%	2.2
Earmarked balances	-2.5%	-5.5
<u>Management / Member Actions</u>		
Clear corporate / Member messages	-1.5%	-3.3
Three-year MTFP and Framework for Change 2020	-1.0%	-2.2
<b>Total Abnormal Risk</b>	<b>2.0%</b>	<b>4.4</b>
<b>Total Risk</b>	<b>7.0%</b>	<b>15.4</b>

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2020/21 should be in the region of £15.4m. A range of £1.0m is advised around this figure so a General Fund reserve between £14.4m and £16.4m would be considered prudent. This represents 7.0% of the Councils net budget. This represents an increase compared to the position reported last year however this reflects the significant increased risk and cost pressure that could materialise in both this year and in future years from a reduction in council tax and business rates income and the increased demand for services arising from the pandemic as discussed in this report.

3.16 The Council started 2020/21 with a General Fund balance of £6.984m and due to the low-level Members approved a strategy to increase the level of General Fund reserves by £1.5m each year. This commenced in 2020/21 and assuming no calls on this reserve during the year will result in a balance at year end of £8.484m



It can be seen that this level is somewhat short of the risk adjusted level required for the Council.

- 3.17 The further allocation in the budget report (subject to the 2020/21 outturn) will see the reserve rise to £9.984m during 2021/22. As a result of this it is essential that each year a balanced outturn is delivered so that there is no requirement to call on this balance as it remains below both the normal risk and total adjusted risk levels for the Council.

## **Earmarked Reserves**

- 3.18 Unlike the General Fund, earmarked reserves are held for a specific purpose. These purposes may be determined by the Council to coincide with its policy objectives, dictated by statute (e.g. schools funding) or agreed with partners who also contribute to the reserve.

- 3.19 Where the decision to set up a reserve rests with the Council, consideration needs to be given as to the benefits of holding an earmarked balance. The Council holds earmarked reserves separately from its General Fund to meet a number of distinct aims.

- Strategic Reserves - In accordance with policy decisions, funding may be set aside and ringfenced for the benefit of a particular service or project ensuring that there is funding to take the activity forward as planned. This can also include general support to the budget.

- Committed Reserves – Where the Council makes a decision that commits it to incurring additional costs in the future, it can set aside the funding necessary to meet that cost when it arises, ensuring that the costs of current decisions are recognised at the point that decisions are made and do not become a burden on future budgets.

- Uncommitted Reserves – Where the Council is aware of an issue that may incur additional costs in the future, it can set aside the funding necessary to meet that cost if and when it arises, ensuring that the potential costs of these issues do not become a burden on future budgets.

- Restricted Reserves – The Council sometimes receives contributions from partners or has to set aside its own funding in a way that restricts where it can be spent in the future. These reserves can only be used to support eligible expenditure which may be restricted to a particular place, activity or service.

- Temporary Reserves – These are used to phase out timing differences between when the Council (or another body) funds expenditure and when it is incurred.

- 3.20 The current and anticipated balances on each of these classes of earmarked reserve are shown below.

	<b>April 2020</b>	<b>Estimated March 2021</b>
	<b>£m</b>	<b>£m</b>
<b>Earmarked Reserves</b>		
- Strategic Reserves	12.318	9.094
- Committed Reserves	11.870	11.870
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.469	1.630
- Temporary Reserves	14.616	8.761
	<b>40.273</b>	<b>31.355</b>
School Earmarked Reserves	-4.385	-7.951
<b>Total Earmarked Reserves per Statement of Accounts</b>	<b>35.888</b>	<b>23.404</b>

- 3.21 The benefits of holding earmarked reserves needs to be weighed against the costs of doing so. Every discretionary earmarked reserve ties up funds that may otherwise be available to fund the core activities of the Council. Each reserve also carries with it an administrative overhead as they will need to be maintained, monitored and reported on.
- 3.22 Of the 40 existing earmarked reserves (excluding unutilised grants and contributions), 28 are to be retained over the medium term or beyond. Each of these reserves will be subject to a regular monitoring process to ensure they remain relevant and are achieving their stated objectives. The remaining reserves held are expected to have fulfilled their purpose within the planning period and will be closed at that point. Any surplus funding on these reserves on completion of proposed activities will be appropriated to the General Fund or returned to the original funding source.
- 3.23 It is important that the Council continues to monitor these reserves throughout the year and when required establishes reserves for specific activities or releases funding that is no longer required to be held. This needs to reflect the diverse nature of activity that the Council is engaged in, including commercial activity.
- 3.25 Within this three-year MTFP period funding has been allocated to support the cost of school closures, with a balance of £1m being available subject to this budget being approved. The financial position of secondary schools within Sefton, due to the lack of funding made available from central government and number of pupils, has seen an anticipation that four out of six will be in a deficit position in 2021/22. This presents a real financial risk to the Council in that in the event of closure or a move to academy status the Council would need to meet the cost of any deficit held at that point in time. In order to protect its position, the Council needs to approve a licensed deficit that must be applied for by the school. Officers have worked extensively with these schools over the last six months and have advised that licensed deficits will only be approved where a school can demonstrate it will set a balanced budget within 12 months and can then repay substantial elements of any deficit thereafter.

- 3.26 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be £9.0m at the end of 2021/22 and is forecast to rise again by a further £1.5m in 2021/22. As this is a budget funded by the Dedicated Schools Grant, this deficit will be held as an earmarked reserve. The clear guidance from both MHCLG and DFEE is that the council cannot use its general fund to meet this cost or balance and the Council is awaiting further guidance from CIPFA and the DfEE on how this balance should be treated as this situation is one that is common within the sector. That said such a significant balance needs to be addressed, with allocations being made within the budget available and the deficit repaid over time. This is the clear expectation of central government at this time and failure to do this will compromise financial sustainability and the cash flow of the council. A report was presented to Cabinet in February 2021 outlining the current position on the high needs budget and the key workstreams that will commence that will improve both the support to those in need but also the financial position of the council. It is essential that these activities continue at pace with reporting on progress and the financial position being reported to cabinet each quarter.

## **Capital Reserves**

### **Capital Receipts Reserve**

- 3.27 The Council retains a capital receipts reserve to finance future capital expenditure. This reserve is financed by capital receipts set aside on the disposal of land, buildings and other assets as well as well as amounts received from One Vision Housing relating to the Council's share of Right to Buy receipts.
- 3.28 The nature of this reserve determines that the balance will vary with the timing of the receipts and the Council's capital schemes that the receipts are being used to fund. The balance at the end of 2020/21 is estimated to be in the region of **£2.9m**.

### **Unapplied Capital Grants and Contributions Reserve**

- 3.29 The value of this reserve relates to capital grants and contributions received that have yet to be utilised to fund ongoing capital schemes. The balance at the end of 2020/21 is estimated to be **£17.8m**. This funding will be utilised in future years. However, additional grants and contributions will be received that won't be fully utilised in the years they are received so will remain in the Reserve until utilised.

## **School Reserves**

- 3.30 The main element of this reserve is individual carry forward balances of schools' unspent budgets. It is the Council's responsibility to hold these balances and ensure they are ring-fenced for use against school activities. These balances are expected to gradually reduce over this planning period as the schools utilise their accumulated surpluses to support their activities.

#### **4. CONCLUSION**

- 4.1 As a result of considering the issues contained within this report, it is the view that the budget proposed is a robust budget package and the opinion provided is in accordance with Section 25 of the Local Government Act 2003.