

Report to:	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services) Cabinet Council	Date of Meeting:	8 February 2022 10 February 2022 3 March 2022
Subject:	Robustness of the 2022/23 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	Included in Forward Plan:	Yes
Exempt / Confidential Report:	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; and
- b) The adequacy of the proposed financial reserves.

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2022/23.

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 Budgets and Council Tax for 2022/23 and thereby shape the Council's financial plan for future years.

(B) Capital Costs

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

Implications of the Proposals:

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

Resource Implications (Financial, IT, Staffing and Assets): None	
Legal Implications: The Council is required to set a Budget and Council Tax level for 2022/23 on or before 10 March 2022 and must consider the comments of the Chief Financial Officer before that decision is taken.	
Equality Implications: There are no equality implications.	
Climate Emergency Implications: The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y
The allocations of capital funding included in the Budget Report may be spent on projects that will have a high climate change impact as they could relate to new build, rebuild, refurbishment, retrofit and demolition proposals. Environmental consideration will be taken into account when specific projects are designed and tendered – which will help to mitigate negative impacts.	

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.

<p><u>Protect the most vulnerable:</u> See comment above</p>
<p><u>Facilitate confident and resilient communities:</u> See comment above</p>
<p><u>Commission, broker and provide core services:</u> See comment above</p>
<p><u>Place – leadership and influencer:</u> See comment above</p>
<p><u>Drivers of change and reform:</u> See comment above</p>
<p><u>Facilitate sustainable economic prosperity:</u> See comment above</p>
<p><u>Greater income for social investment:</u> See comment above</p>
<p><u>Cleaner Greener:</u> See comment above</p>

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 6687/22).

Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 4887/22).

(B) External Consultations

None

Implementation Date for the Decision

Immediately following the 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 and the adequacy of proposed reserves.

2. ROBUSTNESS OF BUDGET ESTIMATES

- 2.1 The budget for 2022/23 has been developed whilst the Council continues to deal with the ongoing financial impact of the COVID pandemic on a number of key services and income sources. This impact will continue for years to come and the understanding of impact and identification of mitigation measures is a key feature of the 2022/23 budget and will be a key feature of budgets to come, thus increasing the complexity of budget setting and also the financial pressure on the Council- this will impact financial sustainability.
- 2.2 As with the previous financial year, developing a robust set of budget estimates for the financial year 2022/23 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 2021/22 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 reported to Members over the last 12 months, the Council budget for 2021/22 included a number of short term financial measures and support to mitigate the financial implications of the pandemic- a number of these were met via central government support provided for a specific purpose and some required Council support. Moving into 2022/23 a lot of this support will come to an end and the budget estimates have had to be updated to take account of the longer term impact of the pandemic on key services and income streams, with continued uncertainty around whether this impact is permanent or temporary. The areas of the Council's budget where a residual impact remains and consideration has been given to it in this budget include:-

- Business Rates Income;
- Council Tax Income;
- Adult Social Care Budget;
- Children's Social Care Budget;
- Leisure Income; and
- Cost of Waste Disposal

- 2.4 As a result of each of these the accompanying budget report details how they have affected the Council's Medium Term Financial Plan assumptions, where additional investment is to be made in services (Adults and Children's Social Care) and where one-off support is being provided pending an understanding of the longer term financial impact (Leisure income and waste disposal costs).
- 2.5 In respect of Children's Social Care, the Council has invested a significant sum in the service during 2021/22 and a further £4.3m is proposed in 2022/23. This will cover the cost of a service staffing review, inflation provision for existing contracts and growth in the placements and packages budget. This budget has seen significant investment over the last 4 years with growth from £33m in 2018/19 to what will be £52m in 2022/23. As such this represents the biggest financial risk to the Council from a budget and financial sustainability point of view at this point in time. Provision has been made in the 2022/23 budget as discussed but there is no further growth proposed in the Medium-Term Financial plan from 2023/24 onwards. In the absence of any further government support, if further growth in the staffing establishment or placements and packages budget is required then corresponding savings will be required from elsewhere in the budget to pay for this. This is something that will need to be determined and decided upon early in the financial year in order that sufficient time is available prior to 2023/24. Likewise, if there is pressure within this budget during 2022/23 that exceeds the funding available, corresponding savings will need to be made in year within other areas of the approved budget - due to the issues in this service, these savings maybe significant and will require quick decisions to ensure financial sustainability is maintained.
- 2.6 Similarly, Adult Social Care, as the largest budget within the Council, has been the subject of unprecedented change over the last two financial years. In supporting providers, the Council has always made available £2m in its Medium-Term Financial Plan to increase the budgets each year. Any variations have been met by the service. As a result of the government announcement with regard to the National Living Wage and an increase of around 6.6% for 2022/23, there has been a need to increase the Council's budget provision by a further £3.5m for this year. This is the Council's affordability envelope for this provider fee increase. The Council's Medium-Term Financial Plan has maintained the £2m provision for provider fee increases for 2023/24 and beyond. If central government increase national living wage at levels similar to this year, i.e. around 6%, then the Council will be faced with a decision as to whether to maintain its affordability envelope or identify savings elsewhere in its budget to pay for this increase in the absence of further direct government support.
- 2.7 It is important to recognise that within the Comprehensive Spending Review (CSR), government announced further grant funding for councils for 2022/23 which is reflected in this budget, but there is no further grant funding that will be made available after this first year- the only additional support that councils can access is a potential 1% Adult Social Care levy (this is the assumption made in the CSR). This equates to £1.4m for Sefton. From this it can be seen that government are making no further funding for investment in Children's Social Care, thus at this point any investment proposed by the Council as previously stated will need to come from savings elsewhere in the existing budget. In respect of Adult Social Care, at present government are suggesting that a 1%

increase should cover the increased costs of Adult Social Care from 2023/24, pending further detail being made available on the future allocation of the Adult Social Care -Market Sustainability & Fair Cost of Care Fund and funding for the other elements of Adult Social Care Reform. This amount is below the Council's current provision of £2m per annum and doesn't reflect the potential for significant increases in National Living Wage nor financial pressure currently being experienced by providers. Also, no additional information has been given on the potential allocation of funding relating to Adult Social Care Reform for individual local authorities beyond 2022/23, however some commentators have suggested that the funding may not be sufficient to fund the potential increases in costs.

- 2.8 The estimates for the financial year in these two key areas are robust, however due to no government support being confirmed after 2022/23 any further investment will require savings to be made in other areas of the Council's budget and details of this should come through in the first quarter of 2022/23.

Ongoing impact of COVID

- 2.9 In developing this budget plan, consideration has been given to the ongoing impact of the pandemic.
- 2.10 Within this budget plan, this ongoing impact is reflected with the following provisions being made:-
- Temporary budget provision being made in respect of continued loss of income from sales, fees and charges income.
 - Temporary budget provision being made for the increased waste disposal costs; and
 - Permanent Medium-Term Financial Plan and budget changes being made in respect of Council Tax and Business Rates income.
- 2.11 It is important to note that no specific additional central government support is being made available to the Council for 2022/23 to mitigate the financial impact of the pandemic.
- 2.12 With regard to the loss of sales, fees and charges income (predominantly in Leisure) and the increased waste disposal costs, at present it is unclear whether these financial pressures are temporary in nature or will represent a 'new normal'- work will be undertaken during the first six months of 2022/23 to further evaluate this- in the event that these pressures continue they will need to be reflected in the Council's Medium-Term Financial Plan and corresponding savings will be required. However, for 2022/23 the correct budget provision has been made based on information available at this point in time.

Framework for Change

- 2.13 In February 2020, Council approved the three-year Framework for Change Programme, the last year of which is 2022/23. A significant amount of work has been undertaken on this Programme in its three key workstreams, Demand Management, Council of 2023 and Growth and Strategic Investment. The aims and objectives of this programme are well established and in progress, with changes having been made during the Programme as expected to reflect differing

demands on services, the financial position of the Council and, naturally, the pandemic. The Programme will support the delivery of the 2022/23 budget.

As discussed earlier, in the event that further growth and investment is required in key services and corresponding savings are required, the Council will need to determine early in 2022/23 whether it has the next iteration of a change programme for 2023/24 to 2025/26 that will have financial sustainability at its core or whether it will move to a more traditional development of a savings programme.

2.14 Within this budget package there are two savings/income streams attributable to the Framework for Change programme:-

- Council of 2023- savings of £0.890m in respect of New Ways of Working are included- these have been signed off as deliverable by project leads.
- Demand Management- savings of £3.800m have been identified within Adult Social Care. These savings have been agreed by the Executive Director of Adult Social Care and Health and the external support that was brought in to support the service, although £1m of this saving will be phased to be introduced in 2023/24

Resources to Deliver Framework for Change 2020 and the proposed 2022/23 Budget

2.15 During the last three years and especially during the pandemic, when additional temporary funding has been made available to support the response and ongoing implications, additional staff resources have been brought into the Council to support this and this has been invaluable. As stated, there is now no ongoing central government support therefore those staff brought in on temporary arrangements will see those contracts expire as originally set out.

Similarly the Council Cost of Change budget for Framework for Change 2020, has now been fully utilised, therefore there is no further budget provision in this year to provide short term financial support for additional staffing or cost of delivery / change across the Council- any such requests will need to be funded by services.

As this paper has shown, in the 2022/23 budget where there is investment in services, the Council continues to provide this to the most acute areas of its budget and this aligns with the core purpose and it reflects decisions over the last decade which have prioritised supporting the most vulnerable. As such there is no investment in those services that could be considered as enablers to the delivery of the framework for change. The Council will need to therefore deliver the final year of its Framework for Change programme and its core business from within the approved budget envelope with any investment in additional resources coming from that budget as no short-term additionality is available. This principle will need to be followed for any spending pressure that is identified in year- a clear and deliverable mitigation plan will be required that is funded from the approved 2022/23 budget.

Factors to be Considered

Impact of Previous Years' Budget – 2022/23

- 2.15 As a result of the continued pressure and complexity on the Council's budget, as is the case each year, the starting point for budget development is ensuring that services start the year with an appropriate budget to meet current demand. In setting the budget for 2022/23, the Council's position as at the end of November 2021 has been taken to inform this. The Council at that point was reporting a small net underspend for the year but with most significant pressure in Children's Social Care. As reported earlier, additional provision has been made to that budget for 2022/23 and it is considered that all remaining budgets will move into the new year with no changes from 2021/22 except where detailed in the budget report.
- 2.16 This position may vary between the time of establishing the budget and year end. As such the first monitoring report of 2022/23 will need to identify any emerging issues and required remedial actions.

Central Government funding

2022/23

- 2.17 For 2022/23, the Council has received a one-year financial settlement, despite a three-year Comprehensive Spending Review being announced in October 2022.
- 2.18 Within this settlement the Council has been provided with certainty around the funding it will receive during 2022/23 to support the core council budget.

Maintaining Service Delivery

- 2.19 As has been previously reported, 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 2022/23, the key challenge faced by the Council will once again be in respect of its demand led budgets, especially Children's Social Care and Adult Social Care. Children's Social Care is progressing through the delivery of its improvement and investment plans during a time of unprecedented increased demand and complexity – additional budget provision has been made available once again to support this but this service remains the key financial risk for 2022/23.
- 2.20 As previously discussed, Adults Social Care has seen a significant impact across the sector as a result of the pandemic that will require continual management through the year. At the same time work will need to commence to support the introduction of the Health and Social Care reforms recently announced by central government at the same time as delivering significant savings.

These two areas will need to be the focus of financial management activity during the year and any material changes to budget assumptions will need to be met by corresponding savings elsewhere in the budget both on a short and long term basis.

Inflation and Annual Cost Increases

- 2.21 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. It is acknowledged that inflation at present within the UK is at levels not seen for some considerable time and will place pressure on both existing and future revenue and capital budgets. As such, in the absence of further external funding, expenditure in some areas will need to be prioritised to ensure that it can be contained within approved levels. This is a risk that will need to be managed in year

Financial Management

- 2.22 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.
- 2.23 To support this approach a continual training offer is available to all budget holders, schemes of delegation for each service are reviewed and where appropriate updated on a quarterly basis and a new budget monitoring forecasting system is being introduced during the latter part of 2021/22. The Council's Financial Procedure Rules were last updated in November 2020 and will be reviewed again during the first half of 2022/23 and will be presented to Audit and Governance committee and Council for approval.
- 2.24 It has been reflected 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.
- 2.25 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 Council's 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

- 2.26 The financial risks facing the Council in 2022/23 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.
- 2.27 During the last two years, it has been widely publicised that a number of these authorities have encountered real financial difficulties with some issuing s114 notices and others requiring other elements of government intervention and support. It is important that the Council learns the lessons from these experiences elsewhere to inform its own approach to decision making and financial sustainability. To support this, CIPFA produce both a resilience index and financial management code 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, 3 relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and 5 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 2020/21. Therefore, the comments below relate to the position as at the end of 2019/20 published at the beginning of 2021.
- 2.38 When compared to other metropolitan district councils Sefton would appear to compare fairly 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. However, this was prior to the significant additional investment which was made in Children's Social Care in 2020/21, 2021/22 and 2022/23 which may present additional challenges with regard to future budget flexibility.
- 2.39 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.
- 2.40 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 2019/20 being relatively lower than many other metropolitan councils. A strategy was agreed to address the comparatively low level of reserves and it is anticipated that this will result in an improvement to the position when the 2020/21 Resilience Index is published by CIPFA.

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. 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 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. The output from this exercise was presented to Audit and Governance Committee in March 2021 and this highlighted that many areas of good practice in financial management are evident across the organisation. An action plan to further improve compliance with the Code was also presented to Audit and Governance Committee and this was shared with the external auditor as part of their value for money assessment.
- 2.44 Performance against the action plan is being monitored and the output will be presented to Audit and Governance committee and the external auditor in due course.

Management of Risk

- 2.45 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.
- 2.46 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 and demand for core services where financial control of expenditure is sometimes limited. 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.
- 2.47 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.

Capital Strategy and Strategic Investment

- 2.48 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 2022/23 and an indicative plan for future years.
- 2.49 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 three to five 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
- 2.50 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

- 2.51 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 2022/23

- 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 delivery or 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 above the level that has been maintained by the Council in recent years, as the CIPFA resilience index has previously identified. As a result, the Council agreed as part of its financial strategy to increase the contributions to this reserve over the last two years in order to mitigate the risk 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 ongoing impact of the 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 2022/23 with the potential for further 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 compared to current budget assumptions. 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 as the budget report reflects.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2022/23 reflects the three-year Comprehensive Spending Review announced in October 2021 and the Provisional Local Government Finance settlement received on 16 December 2021. In addition, the Council has been notified of other grant allocations for 2022/23. These funding levels are included in the Budget Plan.

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- this is especially true in respect of Adults and Children's Social Care in 2022/23. 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 2022/23 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. Based on the financial position as at the end of November 2021, this budget will be re-aligned for 2022/23, however as discussed in this report there is still significant risk that needs to be allowed for as this represents the biggest threat to the financial sustainability of the council
- 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.
- 3.10 **Balance Sheet Risk-** As reported in previous months, the Council has areas of activity for which a balance is held on the Balance Sheet, two such issues being in respect of the High Needs Budget and Sandway Homes Limited. The financial issues, implications and risks associated with these have been reported and if they materialise will require financing strategies to address them.

Budget Setting Assumptions

- 3.10 **Sensitivity of budget assumptions** - The Council’s budgets for 2022/23 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. The current issue around inflation is of particular concern.
- 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:

Factors Considered	Risk Impact % of net budget	Impact on General Fund Balances
		£m
Normal Risk Level (minimum level)	5.0%	12.0
<u>National Considerations</u>		
- Impact of economic climate (including the pandemic) on Council costs and Collection Fund income	1.0%	2.4
- Potential further reductions in Government Funding	1.0%	2.4
<u>Local Considerations</u>		
- Delivery of planned changes in service delivery methods/contracts	0.5%	1.2
- Costs at risk from potential legal challenges	0.5%	1.2
- Rising demand for services -Children’s Social Care	2.0%	4.8
- Balance Sheet Risk -including High Needs Budget	1.0%	2.4
<u>Budget Setting Assumptions</u>		
- Sensitivity of budget assumptions	0.5%	1.2
- Earmarked Reserves	-2.5%	-6.0
<u>Management / Member Actions</u>		
- Clear corporate / Member messages	-1.5%	-3.6
- Three-year MTFP and Framework for Change 2020	-1.0%	-2.4
Total Abnormal Risk	1.5%	3.6
Total Risk	6.5%	15.6

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2022/23 should be in the region of £15.6m. A range of £1.0m is advised

around this figure so a General Fund reserve between £14.6m and £16.6m would be considered prudent. This represents 6.5% of the Council's net budget.

- 3.16 The Council started 2021/22 with a General Fund balance of £11.278m and as discussed due to the low-level Members approved a strategy to increase the level of General Fund balances by £1.5m each year. Assuming no calls on these balances during the year this will result in a balance at year end of £12.778m. In addition, the budget report includes provision for an increase in General Balances of £2.892m, funded from the net Council Tax / Business Rates surplus declared for 2022/23. This would therefore increase balances to £15.670m during 2022/23, in line with the current risk assessment.

Earmarked Reserves

- 3.17 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.
- 3.18 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.

	April 2021	Estimated March 2022
	£m	£m
<u>Earmarked Reserves</u>		
- Strategic Reserves	17.056	11.856
- Committed Reserves	9.961	9.961
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.758	1.921
- Temporary Reserves	69.538	23.128
	98.313	46.866
School Earmarked Reserves	-6.615	-8.415
Total Earmarked Reserves per Statement of Accounts	91.698	38.451

- 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 47 existing earmarked reserves (excluding unutilised grants and contributions), 38 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 the most recent three-year MTFP period funding was allocated to support the cost of school closures, with a balance of £1m currently being available. 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 three out of six will be in a deficit position by the end of 2021/22 (as well as three primary schools and one pupil referral unit). 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 at least £10.0m at the end of 2021/22 and is forecast to rise again in 2022/23. 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 DLUHC and DfE 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 DfE 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 December 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 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 2021/22 is estimated to be in the region of **£4.8m**.

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 2021/22 is estimated to be **£22.7m**. 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.