

Report to:	Overview & Scrutiny Committee (Regulatory, Compliance & Corporate Services) Cabinet Council	Date of Meeting:	7 February 2023 9 February 2023 2 March 2023
Subject:	Robustness of the 2023/24 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:	No	Included in Forward Plan:	No
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 2023/24.

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 2023/24 and thereby shape the Council's financial plan for future years.

(B) Capital Costs

See above

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
None	
Legal Implications:	
The Council is required to set a Budget and Council Tax level on or before 10 March 2023 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	N
There are no climate emergency implications relating to this report.	

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.

Protect the most vulnerable:
See comment above
Facilitate confident and resilient communities:
See comment above

<u>Commission, broker and provide core services:</u> See comment above
<u>Place – leadership and influencer:</u> See comment above
<u>Drivers of change and reform:</u> See comment above
<u>Facilitate sustainable economic prosperity:</u> See comment above
<u>Greater income for social investment:</u> See comment above
<u>Cleaner Greener:</u> 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 7105/23). The Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 5305/23).

(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

Introduction and Current Context

- 2.1 The budget for 2023/24 has been developed whilst the Council deals with the ongoing impact of the prevailing economic conditions in the United Kingdom, namely high inflation, rising interest rates and a cost-of-living crisis. The Council set a robust budget for 2022/23 in March 2022 however as economic conditions changed considerably from that point, it quickly became apparent that the management of that budget would be a significant challenge through the year. This has been reported to Cabinet and Council throughout 2022/23 with temporary funding being used to meet unforeseen budget pressure of approximately £20m during the year arising from financial pressure in Children's Services, from the local government pay award and rising energy costs.
- 2.2 Neither these economic conditions, nor their impact, were reflected in the three year Comprehensive Spending Review from central government for 2022/23 to 2024/25 where an assumed inflation rate of approximately 3% was forecast – this is some way from the 10.7% rate in November 2022 with the forecast rate not expected to reduce significantly until the middle of 2023, which is giving councils a total rate of inflation of towards 20% going into 2023/24 from that previously assumed. This pressure arising in the three areas stated has had two impacts on the development of the 2023/24 budget. Firstly, the majority of this will need funding on a permanent basis and secondly any reserves and balances available to the Council have been used to meet this pressure in the current year and therefore mean they are not available to support the 23/24 budget if cost pressures emerge in the year that are not contained within the proposed budget package. This increases the need to ensure that the proposed budget for 23/24 is robust, is delivered and that senior leaders in each service area within the Council manage within the resources that are available.
- 2.3 As with the two previous budgets which were developed within the pandemic and with one-year financial settlements being received from central government, which are a clear barrier to effective long term financial planning, developing a robust set of budget estimates for the financial year 2023/24 has been incredibly difficult. The risk profile facing the Council has changed considerably during the last 12 months and due to the pressure on the budget from Children's Services, pay awards and energy costs, savings plans/budget proposals have had to be developed for this forthcoming year. As a result, as stated budget managers must manage within the available resources that they have in addition to ensuring that the savings proposals in their areas are delivered in a timely manner. With such economic volatility this will be a challenge, but it is a challenge that must be met, especially in Children's Services.

Development of Core Council Budget

- 2.4 In developing the core Council budget due consideration has been given to the following:-
- Engagement and ownership of the budget and its planning by the Council's Executive Leadership team and Strategic Leadership Board.
 - Ongoing financial pressure from 2022/23 that will continue in 2023/24.
 - Additional required budget growth driven by demand that is required in key services.
 - The funding that will be made available to the Council via central government as detailed in the Local Government Finance Settlement, in addition to that which can be raised via Council Tax; and
 - The deliverability of budget / savings proposals that are required in order that a balanced budget can be set.
- 2.5 As stated, the Council budget for 2022/23 has been under extreme pressure as a result of the change in economic conditions within the United Kingdom, especially inflation and the financial issues arising within Children's Services as a result of increasing accommodation costs and the dislocation in the Social Worker agency market. It should also be noted that the Adult Social Care budget that has historically been underspent on an annual basis is also under pressure due to demand and it is currently forecast that this will no longer deliver that underspend to the wider budget either in the current year or future years.
- 2.6 As a result of each of these, the accompanying budget report details how they have affected the Council's Medium Term Financial Plan assumptions, and the additional investment that will be required.
- 2.7 In respect of Children's Social Care, the Council has invested a significant sum in recent budget rounds, with the annual approved budget increasing from £33m to £52m between 2018/19 and 2022/23. It is proposed that in 2023/24 that a further £17.9m (plus £3.2m of temporary funding) be invested to take account of pressure from 2022/23 and further financial growth that will be required for the next financial year. The Department for Education Commissioner recommended that the Council's budget be aligned to the Children's Services Improvement Plan, which is monitored by Overview and Scrutiny Committee, and the financial detail for the next two years reflects that, with all budget estimates having been developed and signed off by the Executive Director of Children's Services. Further work will commence over the next three months to develop a longer-term budget plan that will feed into the next Medium Term Financial Plan and reflect the requirements of the service within the context of the overall financial envelope of the Council.
- 2.8 The Children's Social Care Budget is substantially overspent in 2022/23, due to pressure on the workforce budget through the increased use of agency staff and managed teams, inflation on accommodation costs and the wider increase in costs for this support from external providers. Significant work has therefore been undertaken to understand the future years' impact so that this can be funded to meet a 'steady state' and also what additionality is required to support the service. This additionality is focussed on ensuring the workforce is in place to deliver the improvement via investment in the social worker academy and that provision for

agency support where vacancies exist is also available. Similarly additional investment is proposed to support the provision of inhouse accommodation to support children and further budget provision for external accommodation if required. There are other measures however that also need to be taken and which has been agreed in order that the 2023/24 budget is balanced and that includes any staff on temporary funded contracts leave the Council when this expires and any staff who are in unfunded posts also leave the Council before April 2023 as they are posts that are not budgeted for, in addition to determining how the agency budget will be utilised particularly in respect of the managed teams that are currently within the service. This has also been agreed by the Executive Director of Children's Services. This service is the one that poses the greatest financial risk to the Council's financial sustainability and whilst it is recognised that good children's services deliver value for money, hence the further additional investment in the service, it is essential that the principles that have been agreed for this budget in 2023/24 are followed as there is no flexibility within the budget to provide further support. The Council cannot financially accommodate an overspend similar to that being experienced in 2022/23 in Children's Services as the resources are not there to support it and it would compromise the financial sustainability of the Council.

- 2.9 Similarly Adult Social Care is now facing budget pressure with previous years financial underspends no longer forecast. Based on National Living Wage changes and inflation, the budget has provision for £7.5m in each of the next two years for increases in provider fees and the outcome of the annual review of these will need to be contained within this budget, which is being supported by the proposed Adult Social Care precept that will contribute £3m. The Government have also announced that a ring-fenced Adults Social Care grant will be paid to local authorities- for Sefton this amounts to £2.4m for 2023/24 and will be used to fund the pressure being experienced in the budget at this time. As with Children's Services it is important that a long-term review of the demand and demographic pressure facing Adults Social Care is conducted over the next six months in order to inform future medium term financial planning. There are savings proposals also included within the budget report for the service and again these have been signed off by the respective Executive Director as being deliverable in year.
- 2.10 These two budgets account for over 65% of the Council's revenue budget for services, and whilst they are under pressure and demand can be volatile, they need to be tightly managed during 2023/24 with all budget proposals being agreed and signed off as there is no flexibility in the rest of the Council's budget to meet any in- year pressure that may materialise. In the event that additional financial support is required this would have to come from corresponding savings elsewhere in the Council's approved budget.
- 2.11 The financial pressure facing the Council following a review of all existing budgets and Medium-Term Financial Plan assumptions cannot be met with the funding allocated by central government when added to the Council Tax options available to the Council. As such a set of budget / savings proposals have been identified for approval in the Budget Report- these have been signed off as being deliverable by Executive Leaders and the Strategic Leadership Board and the budget reflects that.

- 2.12 As part of the budget development it is considered that two elements of financial pressure maybe temporary in nature. These relate to agency costs in Children's Social Care and energy costs. In respect of agency costs, the budget for 23/24 has been agreed by the Executive Director with a far greater reliance currently being placed on this cohort of staff than would normally be required. This will be delivered through either a traditional agency model or 'managed teams'. Following substantial additional investment by the Council, the service has developed a social worker academy and is progressing with international social worker recruitment- these two routes could provide up to 50 additional permanent social worker staff over the first 4-6 months of the financial year. This will significantly reduce the agency cost hence treating an element of this on a temporary basis, with ongoing recruitment to the social worker academy planned.
- 2.13 With regard to energy costs , there is no certainty as to the price that will be payable under the Council's framework providers next year nor whether the central government support scheme will continue into next year- it is estimated that the additional cost before reduced usage and any further support will be £4.2m to the Council- as stated it is expected that this cost will reduce and / or the government scheme will continue. As a result, temporary provision of £4.2m has been made. In the event that it is considered that either of these budgets require longer term support they will need to be built into the Council's base budget with funding allocated or corresponding savings being required.
- 2.14 As occurs each year, in developing this budget all Medium-Term Financial Plan assumptions have been reviewed and are considered prudent. However, there are some where the final sum is yet to be identified, for example the pay award - these will be monitored, and any variation reported to Members in due course. With the prevailing economic conditions, the volatility that exists within the budget for next year cannot be underestimated, especially as additional central government financial support for 23/24 does not reflect the full implications of the growth pressure nor inflation requirement facing the Council. As a result, the budget will need proactive management to contain expenditure within the approved levels.
- 2.15 Members will recall that in terms of understanding the pressure from the current year that will require funding in the new financial year a position is taken as at the end of November. This position may vary between the time of establishing the budget and year end, especially in respect of Children's Services. As such the first monitoring report of 2023/24 will need to identify any emerging issues and required remedial actions.
- 2.16 For 2023/24, the Council has received a one-year financial settlement, although the Local Government Finance Policy Statement 2023/24 and 2024/25 that was announced on 12 December 2022 does provide additional information relating to 2024/2025 funding that allows for some informed assumptions to be made relating to some funding streams in that year. As a result, within this settlement the Council has been provided with certainty around the funding it will receive during 2023/24 to support the core Council budget, but there is no certainty as to what funding will be received beyond that period.
- 2.17 As can be illustrated in this section of the report, the budget has been developed by the Executive Leadership Team and Strategic Leadership Board which

supports the objective of ensuring that the budget presented for Member approval is both robust and has ownership.

Maintaining Service Delivery

- 2.18 As has been previously reported, the scale of the budget shortfall that the Council has faced over the last twelve years 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 2023/24, the key challenge faced by the Council will once again be in respect of its demand led budgets, especially Children's Social Care, Adult Social Care and Home to School Transport. Substantial budget growth to reflect the view of what funding is required to deliver these services and the ongoing pressure being faced has gone into each of these areas for next year and as they make up the largest part of the Council's budget it is critical that these services are managed within the resources available
- 2.19 As a result of this prioritisation, all other remaining Council services are not receiving growth and the focus of staff savings through the freezing of vacant posts and proposed savings are in these areas. As a result, the pressure in these areas both operationally and financially will increase and again will require robust financial management and reporting to deliver services within the resources available.

Inflation and Annual Cost Increases

- 2.20 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. With inflation currently in excess of 10% nationally this approach in effect reflects a budget cut for these services and expenditure will need to be managed within this reduced sum available.

Financial Management

- 2.21 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.

- 2.22 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 new budget monitoring forecasting system is now in place. The Council's Financial Procedure Rules were last updated and approved by Council in January 2023 following review by Audit and Governance Committee.
- 2.23 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 economic conditions within the UK 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.
- 2.24 In order to manage these risks and objectives, the Executive and Senior Leadership Teams 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, but especially Children's Services, 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.

Medium Term Budget Planning and Transformation Programme

- 2.25 Since 2016 the Council has had a framework for change transformation programme with financial sustainability at the centre of it. The second iteration of this has now come to an end (Framework for Change 2020) and a new transformation programme is currently in development and will be presented to Members in due course (Members will recall that at Cabinet in September 2022 it was also agreed that the Council Vision would also be reviewed). This will focus on two areas, Growth and Strategic Investment and the continued transformation of key services that reflect political priorities due to the importance to residents and those with the greatest financial impact- once again this be the delivery vehicle for financial sustainability for the Council. As a result, the detail of this will be aligned to the Council's next Medium-Term Financial Plan. This was one of key findings from the LGA revisit in 2022.
- 2.26 As was stated previously, the Council has been provided with a one-year financial settlement for 2023/24, although the Local Government Finance Policy Statement 2023/24 and 2024/25 that was announced on 12 December 2022 does provide additional information relating to 2024/2025 funding that allows for some informed assumptions to be made relating to some funding streams in that year. Therefore, there is no certainty as to what funding will be received beyond that period. The budget report provides for a current medium-term financial estimate for the next three years that will need to be updated for the requirements of Children's and Adults Social Care following the respective services completing their forecasting work in addition to key budget assumptions around central government funding- with the overall economic picture for the United Kingdom not looking favourable at present the planning for the next three-year period should start immediately and be reported into Members together with an updated Medium-Term Financial Plan

in the Autumn of 2023 in order that appropriate consultation can take place and any proposals are in place before April 2024.

CIPFA Financial Resilience Index and the CIPFA Financial Management Code-

- 2.27 The financial risks facing the Council in 2023/24 and beyond have been set out within this report and the wider Budget Report and as would be expected after the last decade, as a result of the pandemic and the current economic uncertainty, this level continues to rise. This is similar for most local authorities.
- 2.28 Over recent 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

- 2.29 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 reported in previous years, there are 15 indicators which are compared to other local authorities - 7 of these indicators relate to the level of reserves and balances 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).
- 2.30 At this time, the Index has yet to be updated to reflect the position as at the end of 2021/22. Therefore, the comments below relate to the position as at the end of 2020/21 published at the beginning of 2022.
- 2.31 When compared to other metropolitan district councils Sefton is classed as a medium risk (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., the proportion of its budget spent on high-risk services, where the ability to reduce overall expenditure on these services is less due to rising demand, is average compared to other local authorities. However, following significant additional investment in recent and future years in Children's Social Care, this would now be classed as a high-risk area and presents challenges with regard to budget flexibility.
- 2.32 Sefton 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.
- 2.33 However, whilst good progress has been made in increasing the level of General Balances over recent years which have moved in a positive direction, the Index shows that Sefton is at a higher risk of financial stress (relative to others) due to

its overall level of reserves (both General Fund Balances and Earmarked Reserves) at the end of 2020/21 being relatively lower than many other metropolitan councils. Therefore, it is important that an appropriate level of reserves is maintained to mitigate against this risk.

CIPFA Financial Management Code

- 2.34 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.
- 2.35 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.
- 2.36 The Council's finance service completes an annual self-assessment of compliance with the Code that includes 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 the most recent review was presented to Audit and Governance Committee in June 2022 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 will be shared with the external auditor as part of their value for money assessment.
- 2.37 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

- 2.38 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, these include Financial Procedure Rules, Contract Procedure Rules, and clear guidance on when professional advice should be sought, e.g., with regard to contracts. 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.
- 2.39 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 current economic conditions and demand for core services where financial control of expenditure is sometimes limited. This is particularly the case for Children's Services. 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.

- 2.40 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 performance reviews that bring together finance, performance and risk information. 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

- 2.41 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 2023/24 and an indicative plan for future years.
- 2.42 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 or maintain 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
- 2.43 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

- 2.44 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. From the 2023/24 financial year Ernst and Young will be replaced as the Council's external auditor by Grant Thornton.

3. RESERVES STRATEGY 2023/24

- 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 (General Balances) 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 short to medium term-ideally in the next financial year.
- 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 recognised benchmark minimum level that is used by authorities is for the General Fund Reserve to be maintained at a minimum of 5% of the Council's net budget. This represents a level that should be held for a 'normal' level of risk faced. However, this rate will not take account of variable factors such as the economic climate, government policy nor local factors, e.g., Children's Services. 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 rising inflation and the cost-of-living crisis, will prove challenging in 2023/24 with the potential for substantial cost increases for goods and services procured or commissioned by the Council. In addition, there is the probability through recession 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 **Potential reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2023/24 reflects the Local Government Finance settlement finalised in late January 2023. In addition, the Council has been notified of other grant allocations for 2023/24. 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 will be especially true in respect of Adults and Children's Social Care in 2023/24. In addition, the Council's new and emerging transformation programme will propose significant changes 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 2023/24 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, Adult Social Care and Home to School Transport. Based on the financial position as at the end of November 2022, these budgets will be re-aligned for 2023/24 where appropriate, however as discussed in this report there is still significant risk that needs to be allowed for.
- 3.9 **Balance Sheet Risk-** As reported to Cabinet, 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 2023/24 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 is currently developing a new transformation programme, with financial sustainability at its core. These plans will allow the Council to develop proposals that will meet the budget requirement over the medium-term.

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%	13.0
<u>National Considerations</u>		
Impact of economic climate on Council costs and Collection Fund income	2.5%	6.5
Potential reductions in Government Funding	1.0%	2.6
<u>Local Considerations</u>		
Delivery of planned savings	0.5%	1.3
Financial risk associated with Children's Social Care	2.0%	5.2
Balance Sheet Risk -High Needs Budget, Sandway Homes Limited	2.0%	5.2
<u>Budget Setting Assumptions</u>		
Sensitivity of budget assumptions	-1.0%	-2.6
Earmarked balances	-1.5%	-3.9
<u>Management / Member Actions</u>		
Clear corporate / Member messages	-2.0%	-5.2
Three-year MTFP and new transformation programme	-2.0%	-5.2
Total Abnormal Risk	1.5%	3.9
Total Risk	6.5%	16.9

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2023/24 should be in the region of £16.9m. A range of £1.0m is advised around this figure so General Fund balances between £15.9m and £18.9m would be considered prudent.

3.16 The Council is forecast to start 2023/24 with a General Fund balance of £11.991m. As a result, it is considered that the balance available to the Council is

below that considered prudent when compared to the risks faced. The draft budget for 2023/24 includes a contribution to General Balances of £3.400m funded from the net Council Tax / Business Rates surplus declared for 2023/24. This will increase General Balances to £15.391m –still below the level considered prudent compared to the risks faced (however, it should be noted that the budget includes £1.023m to be carried forward as General Balances to offset anticipated one-off costs in 2024/25 – these could also be drawn on if required during 2023/24). It is therefore recommended that the reserves strategy of the Council be re-visited as part of the next Medium-Term Financial Plan. This analysis reflects that there is no surplus funding available to support the current budget nor meet budget pressure in 2023/24 thereby re-enforcing the requirement for budget holders to deliver services within the approved budget.

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.

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

	April 2022	Estimated 31 March 2023
	£m	£m
<u>Earmarked Reserves</u>		
- Strategic Reserves	-15.472	-14.583
- Committed Reserves	-10.948	-10.948
- Uncommitted Reserves	-3.077	0.000
- Restricted Reserves	-1.921	-2.042
- Temporary Reserves	-49.835	-16.364
Total Earmarked Reserves per Statement of Accounts	-81.253	-43.937

3.20 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.

3.21 Of the 53 existing earmarked reserves (excluding unutilised grants and contributions), 29 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.

3.22 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.

3.23 Within these reserves the Council currently holds £1.750m to support the cost of school closures where a school transfers to academy status or closes with a financial deficit.

3.24 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be £18.1m at the end of 2022/23 and is forecast to rise again in 2023/24. As this is a budget funded by the Dedicated Schools Grant (DSG), this deficit will be held as an earmarked reserve. The clear guidance from both the Department for Levelling Up, Housing and Communities and the Department for Education has historically been that that the Council cannot use its General Fund to meet this cost or balance.

3.25 A substantial number of councils across the country have large High Needs deficits. As a result, work has now commenced led by Central Government across the sector to try and move councils to a financially sustainable position in

respect of these budgets. Some councils, who have the largest deficits, are receiving direct central government intervention whilst some, including Sefton, are now on the Department for Education led Delivering Better Value Programme - this work has now commenced with completion of the majority of the diagnostic and recommendations due by May 2023. The key financial risk however facing the Council is two-fold. Firstly, the deficit continues to rise at over £3-4m per year. This is not financially sustainable and must be reduced at the earliest opportunity and it is recommended that the ambition for the service should be for this to be within 1-2 years. There is no indication, and it should not be assumed, that these deficits will be written off by central government based on information received, therefore in Sefton this needs halting in the short term not over 4-5 years.

- 3.26 The second key issue and risk is that a statutory override has been in place for these deficits for a number of years and as such a deficit balance has been able to be carried forward each year on the Council's Balance Sheet. Central Government have advised that this is to continue for the next three years - i.e., up to March 2026. This is a key medium-term financial risk as the issue then becomes how the deficit should be met at that point. As stated, the high needs deficit has always been seen as a DSG issue and the Council continues to state that this should be the case, therefore if the override is removed the deficit would need to be funded from the DSG. Whilst there is no indication at present that this is proposed, there is the risk that central government will remove the statutory override in 2026 and request councils to fund any deficits- it can be seen that due to the substantial increase in the deficit in the last three years, the Council does not have the reserves to meet this nor the flexibility in the current revenue budget to meet such a deficit. As a result, depending on central government guidance, this could present a significant risk to the financial sustainability of the Council. This reinforces the continual need as has been agreed and has commenced for the Assistant Director of Children's Services (Education) to report to Members the measures that will be introduced as soon as possible to reduce the increase in the annual deficit, the cumulative balance and also be clear when it can deliver the service within annual allocations / budgets- the quarterly reports to both Cabinet and Council should do this and it is essential that a clear pathway and forecast is articulated that evidences this, otherwise the financial risk to the Council will increase exponentially.

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 2022/23, and therefore the opening balance for 2023/24 is estimated to be in the region of **£6.3m**.

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 2022/23 is estimated to be **£23.9m**. 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.
- 3.31 With the current cost of living crisis and the impact of inflation and pay awards, the financial pressure on schools is ever increasing and this reduction is expected to accelerate. The Council has clear financial procedures for schools, that reflects that annual budgets should be set within agreed resources available and sustainable three-year plans should also be approved. Any school that doesn't meet these requirements has to seek approval for a licensed deficit with a view to returning to a balanced position. This will require careful management by schools with support from the Council's finance team but there must be clarity around setting sustainable budgets each year so that the Council's position is protected. This is even more important as there continues to be a central government policy drive to move schools to academy status. This poses a significant financial risk to the Council both through the deficit position of some schools but also the scale of resources currently within the Council that support schools. Work is underway to fully evaluate this exposure and a report will be presented to Cabinet and Council by the Assistant Director for Children's Services (Education) in 2023/24 on this.

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 whilst also ensuring that there are adequate General Balances to draw on if the service estimates turn out to be insufficient. This opinion is provided in accordance with Section 25 of the Local Government Act 2003.