

<b>Report to:</b>	Overview and Scrutiny Committee (Regulatory, Compliance and Corporate Services)  Cabinet  Council	<b>Date of Meeting:</b>	6 February 2024  8 February 2024  29 February 2024
<b>Subject:</b>	Robustness of the 2024/25 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	(All Wards);
<b>Portfolio:</b>	Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	Yes	<b>Included in Forward Plan:</b>	Yes
<b>Exempt / Confidential Report:</b>	No		

### Summary:

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

### Recommendation(s):

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

- a) An opinion as to the robustness of the estimates made and the tax setting calculations; 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 2024/25.

### 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 2024/25 and thereby shape the Council's financial plan for future years.

**(B) Capital Costs**

As above

**Implications of the Proposals:**

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

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> None	
<b>Legal Implications:</b> The Council is required to set a Budget and Council Tax level on or before 10 March 2024 and must consider the comments of the Chief Financial Officer before that decision is taken.	
<b>Equality Implications:</b>  There are no equality implications.	
<b>Impact on Children and Young People: Yes</b>  The report highlights the current financial position relating to services provided for Children and Young People.	
<b>Climate Emergency Implications:</b>  The recommendations within this report will	
Have a positive impact	No
Have a neutral impact	Yes
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	Yes
The allocations of capital funding outlined in the main 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.

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

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

**(A) Internal Consultations**

The Executive Director of Corporate Resources and Customer Services is the author of the report (FD 7520/24).

Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 5620/24).

**(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**

### Introduction and Current Context

- 2.1 The Budget for 2024/25 has been developed over the last nine months whilst the Local Government sector and Sefton Council continues to deal 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, which together with increased demand for and cost of council services means that authorities across the country are under extreme financial pressure. The Council was aware of each of these issues when it set a robust budget for 2023/24 and at that point in time the financial parameters it was working within were clearly reported and understood.
- 2.2 As at the end of December 2023, the Council is reporting a net overspend of £9.3m on its General Fund which is made up of the four areas: -
- Pressure from the local government pay award.
  - Pressure on its Home to School Transport budget.
  - Pressure in Adult Social Care; and
  - Pressure in Children's Social Care.

These issues have been reported to Cabinet each month during 2023/24 and a remedial action plan is in place. The pressure from the local government pay award was unforeseen across the sector and will need funding on a permanent basis from 2024/25. The pressure in respect of Home to School Transport reflects the demand increase in Education Excellence arising from SEND.

Children's Social Care budget pressure in the current year is around £6.1m. This is substantially less than the previous financial year and reflects the stabilisation of the Service. The commissioner advised that a budget variance of approximately 5% could be expected within the budget this year and this latest estimate is over that estimate but close enough to reflect a clear direction of travel.

Having considered each of these issues it can be reported that the financial strategy for the Council is working with all remaining services forecast to be underspent in year or close to being balanced with the exception of the £162m gross Adult Social Care budget forecasting a potential overspend up to £2.5m or 1.5% of the gross budget.

With this in-year pressure there has been an additional call on Earmarked Reserves. The total call on these over the last two years, due predominantly to the unprecedented pressure in Childrens Services and from energy prices increases, has been over £25m. These balances need to be replenished from

2024/25 onwards and this budget provides detail of how that will start to take place.

- 2.3 Within the Local Government Finance Settlement for 2023/24 all councils were given a clear indication of the funding that will be available for 2024/25. This has aided financial planning over the last nine months. The Autumn Statement of November 2023 provided confirmation of these assumptions with the Local Government Finance Settlement providing the detail of the funding that will be available to the Council, with this reflected in the budget report.
- 2.4 It has been widely reported during the last year that local government is close to financial breaking point. There have been councils who have been forced to seek intervention due to financial difficulties arising from exposure from commercial investments or debt exposure, however in latter months, the focus has been on councils not in this space but who cannot provide core services due to increased cost and demand not being matched by a corresponding increase in resources. Councils have been using increased levels of reserves to not only set budgets but also meet in year financial pressure thus reducing resilience and compromising financial sustainability. These issues reflect a lack of resources within the sector as opposed to poor financial management, as reported by both the LGA and CIPFA.

In advance of the Autumn Statement the LGA submitted to government its informed assessment that substantial additional investment was required in the following areas in order to provide the required services to residents and also maintain financial sustainability in the sector: -

- Childrens Social Care.
- Adults Social Care.
- SEND.
- High Needs Deficit; and
- Homelessness.

For Sefton, it can identify with each of these pressures, and they are each a feature of the budget report that is on this agenda. The pressure from each of these areas is substantial and reflects either central government policy, legislation or lack of funding to meet demand, hence the LGA requesting additional support. This further re-enforces the need for the Council to replenish its reserves that have been used over the last two years in order to increase financial resilience and also provide protection against any financial shocks that may arise.

- 2.5 As stated, despite this national coverage of local government finance, the perilous position of councils and the engagement, insufficient funding has been forthcoming, and this is the financial environment and current context that the Council will work in over the next financial year.

#### Development of Core Council Budget

- 2.6 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 2023/24 that will continue in 2024/25.
- Additional required budget growth driven by demand and inflation 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.
- The deliverability of budget / savings proposals that are required in order that a balanced budget can be set; and
- The level of Earmarked Reserves and General Balances that the Council should hold.

2.7 To enable the development of a budget package for Member approval, two cycles of budget sessions have been held with all Executive / Assistant Directors. This has focussed on:

- Review of current in year budget position and future years' impact.
- Potential financial pressure for 2024/25 to 2026/27 from demand or cost increases; and
- Savings proposals to support budget development.

These sessions have proven to be valuable with each budget assumption for 2024/25 in the budget report being signed off via this process.

2.8 In respect of Children's Social Care, Members will recall that a five-year investment plan was developed to align with the services improvement plan. Throughout the year, the Director of Children's Services, Chief Executive, s151 Officer, Deputy s151 Officer and Head of Personnel have met monthly, and bi-monthly with the relevant Cabinet Members, to track progress on the budget, review assumptions, provide advice and support and take decisions that align with the improvement plan - the outcome from those sessions is reflected in this budget package and the proposed in-year budget has been signed off as deliverable by the relevant Executive Director. The key element within this is the staffing budget. The non- staffing budget has stabilised over the last 12 months, however the agreed strategy for the development of a skilled and stable workforce was to invest in international social workers, a social work academy and proactive recruitment and retention with financial incentives. These have taken place, and a new structure is proposed to be in place 2024/2025 that is within budget and supported by a £1m permanent agency budget. This will see the transition from temporary and expensive agency staff to that skilled and stable workforce, (unless they are required to cover substantive posts) and will reflect the temporary budget available in 2023/24 coming to an end as well as external funding, e.g., from the Leeds programme, no longer being available. The delivery of this is critical to next year's budget.

2.9 In respect of Adult Social Care, this is a gross budget of £162m in 2023/24 and is increasingly complex- budget sessions were held as with every other service with an additional session being held in October 2023 to review in granular detail, in year pressure, delivery of savings, emerging pressure, work required to inform potential provider fee increases for 2024/25 and further additional demand- the outcome of those sessions is reflected in this budget package and the proposed

in-year budget has been signed off as deliverable by the relevant Executive Director. Within this, the two key issues are in respect of demand and increase in provider fees. The detailed work undertaken by the Service is reflected in this budget and it is essential that the delivery of these assumptions takes place. There are savings that have been made on a temporary basis in the current year amounting to approximately £1.3m – these will need to be made on a permanent basis in 2024/25 in addition to the savings detailed in the main budget report. Additional demand from this year will also be met from the additional funding made available to the service next year as part of the local government finance settlement in December 2023. Work is currently underway to refine the estimate for demand or cost increases that will be experienced in 2024/25 – to meet the current estimate £2.25m of the additional social care grant that was announced in January 2024 will be allocated to meet this with the position being reviewed at the end of Q1. If additional pressure is identified above and beyond the additional resources that remain from the social care grant, corresponding savings will need to be made by the service and these will be provided to members for approval as appropriate.

- 2.10 A similar process has been undertaken in respect of Education Excellence and SEND- the demand pressure in this area has increased substantially each year and is reflected in financial pressure in respect of Home to School Transport, additional staff being required to process EHCP's and an increase in the High Needs Deficit. The budget assumptions in respect of this service have been the focus of stringent review and the proposed in-year budget has been signed off as deliverable by the relevant Assistant Director.
- 2.11 These three budgets reflect the greatest financial risk to the Council, not due to financial management arrangements but due to demand, volatility and potential cost increases. Every effort has been made to understand each of these for 2024/25 and if there are any variations these will need to be met with in-year remedial action plans in those services. In addition, it is essential that where decisions are within the control of officers, and have been reflected in the proposed budget, that they are adhered to, for example assumptions around staffing levels. As these budgets account for approximately 71% of the Council's budget on the Net Cost of Services, if there are budget variances there is no scope for other services to meet these, hence financial discipline, informed budget and business decisions and financial awareness will be critical in this next year as there are no surplus resources available.
- 2.12 The outcome from this work throughout 2023/24 and the comprehensive review and updating of all existing budgets and Medium-Term Financial Plan assumptions is reflected in the budget report. It can be seen from this that a balanced budget 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- as stated these have been signed off as being deliverable by Executive Leaders and the Strategic Leadership Board and the budget reflects that.
- 2.13 As part of the budget development it is considered that there is one main element that remains temporary in nature, and this is in respect of energy costs. Unlike the two previous years the Council has more price certainty as to what it will pay in 2024/25 but this remains higher than the budget allocation that was in place



before the conflict in Ukraine. As such temporary funding of £2.7m has been made available. In event that prices do not come down to pre-2022 levels during the forthcoming year then permanent budget provision will need to be identified within the budget from 2025/26.

- 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 2024/25 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 Adult Social Care and Children's Social Care.
- 2.16 For 2024/25, the Council has received a one-year financial settlement, and a general election will be called during this financial year that will inevitably inform future budget allocations from 2025/26. That said it is essential that the Council returns to multi-year budgeting and a three-year budget package is proposed within this budget that will aid service delivery and financial stability, resilience planning and management.
- 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 and the demand and cost increases that the Council has faced over the last thirteen 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 2024/25, 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 are required to deliver savings. 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 remaining high 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, Executive Leadership Team and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue budget monitoring, with Cabinet and Council both receiving the annual Medium Term Financial Plan.
- 2.22 To support this approach, a continual training offer is available to all budget holders, schemes of financial delegation for each service are reviewed and where appropriate updated on a quarterly basis and a new budget monitoring forecasting system is now in place. The Council's Financial Procedure Rules were last updated and approved by Council in January 2024 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, take decisions in accordance with the budget plan 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 in Children's Services and Adult Social Care, 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. This has served the Council well. From 2023 a review of all areas of the Council has taken place and a new programme is proposed. This is shown within the main budget report with a focus on Business as Usual, the Growth programme and a number of change, service development or transformation projects. This programme will be the vehicle to deliver financial sustainability. The growth programme is now embedded in the Council and the following new projects have been identified: -

- Children's Social Care
- SEND
- Home to School Transport
- Operational In-House Services
- Adult Social Care: Transformation Programme / Extra Care / Supported Living
- Housing
- Corporate Landlord
- Localities

It can be seen that transformational activity is focussed on the largest Council budgets and those under demand and cost pressure. As a result, these reviews will support financial resilience and stability.

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

2.27 The financial risks facing the Council in 2024/25 and beyond have been set out within this report and the wider Budget Report and as would be expected after the last decade, the prevailing economic conditions - namely high inflation, rising interest rates and a cost-of-living crisis - and the increased demand and cost of Council services, 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 and 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 2022/23. Therefore, the comments below relate to the position as at the end of 2021/22 published at the beginning of 2023.
- 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. There has been significant additional investment in recent and future years in Children's Social Care across the sector, and currently Sefton is classed as medium risk in comparison to other local authorities with regard to budget flexibility. However, there are still significant challenges with Children's Social Care and the delivery of the improvement plan is critical to next year's budget as highlighted in paragraph 2.8. In addition, Adult Social Care is now classed as high risk compared to other local authorities which further limits 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 The Index shows that Sefton is at a higher risk of financial stress due to its level of reserves and balances at the end of 2021/22 being relatively low in comparison to other Metropolitan District Councils, however the direction of travel with the increase in General Balances is positive and these are set to be increased further as part of this budget package. Unallocated General Balances are classed as medium risk whereas Earmarked Reserves are classed as high risk (however, this may be distorted by COVID funding). Therefore, it is important that an appropriate level of reserves is maintained to mitigate against this risk and that this supports the proposed increase to the level of Council reserves as set out in the budget report.

#### 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 July 2023 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 and Adult Social Care. 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 2024/25 and an indicative plan for future years.

- 2.42 The Council, as stated previously, has identified that its growth workstream is 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. The Council has been successful in gaining substantial central government funding via the town deal fund for Southport and levelling up programme for Bootle Town Centre/ Strand. This provides the basis for investment to promote regeneration and will require proactive financial management due to the current financial environment- this focus will need to be on cost control, risk management, consideration of supply chain and understanding sensitivity analysis linked to inflation, cost and income streams in addition to ensuring that third party contributions to the planned capital works are secured. Both programmes have exposure to each of these to varying degrees and it is essential that the management arrangements have the right skill sets in to manage this. In addition, the Council must ensure sufficient capacity exists and all financial estimates are prudent and considered with member reporting of any change undertaken in an expedient manner.
- 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 superseded as the Council's external auditor by Grant Thornton.

## **3. RESERVES STRATEGY 2024/25**

- 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 financial events or shocks 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. As stated, if used in accordance with the governance arrangements set out, reserves should be repaid and replenished in full 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 is 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.
  - The inherent risk around demand and cost increases.
  - Specific risks relating to the delivery or changes in Council services.
- 3.4 In considering the level of General Balances that should be held the Council needs to give due consideration to both its Earmarked and General Fund Reserves- within Sefton when compared to other councils and at an absolute level it does not have a significant amount of Earmarked Reserves (total of £37.3m forecast for 31 March 2024, with £20.5m potentially available – note that this includes £9.0m for which there is a recommendation within the main budget report to transfer to General Balances). When compared to other councils Sefton has the fifth lowest level of reserves (General Balances and Earmarked Reserves as a proportion of net revenue expenditure) of all metropolitan districts at 31<sup>st</sup> March 2023. Therefore, there is more emphasis on ensuring the General Balances are at a level that supports financial sustainability and resilience. In determining the normal level of risk faced the Council will also need to take account 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 high inflation and the cost-of-living crisis, increased demand and cost pressure will prove challenging in 2024/25 with the potential for substantial cost increases for goods and services procured or commissioned by the Council. In addition, there is the probability of 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 2024/25 reflects the Local Government Finance Settlement finalised in late January 2024. In addition, the Council has been notified of other grant allocations for 2024/25. These funding levels are included in the Budget Plan. Funding levels beyond 2024/25 are currently unknown.

## 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 Adult and Children’s Social Care and Education Excellence in 2024/25. In addition, the Council’s new and emerging transformation programme will propose significant changes as to how some services are provided. Combined, these 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 substantial short-term 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. Investment has been included in the 2024/25 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 2023, these budgets will be re-aligned for 2024/25 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 2024/25 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 but as reported the Council holds a low level of Earmarked Reserves compared to most other councils thus placing more emphasis on General Balances. 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 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 has set out its new transformation programme, with financial sustainability at its core. These will support the basis of the three-year budget plan that is presented in this meeting for decision.
- 3.14 As a result of these issues it is considered that for 2024/25 the Council should seek to increase its General Balances to £30m which is about 11% of the 2024/25 net budget requirement.
- 3.15 It is proposed that the level of General Balances be reviewed each year, but it is expected that due to the exponential risk in the sector and the low level of Earmarked Reserves that General Balances will need to increase by at least £2m per annum. As stated in this report, and the main budget report, in the event that any General Balances are used by the Council these must be replenished in the next financial year with detail of how this would take place being provided at the same time as the decision on usage is being made.

## **Earmarked Reserves**

- 3.16 Unlike the General Fund Reserve, 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.

	<b>April 2023</b>	<b>Estimated 31 March 2024</b>
	<b>£m</b>	<b>£m</b>
<b>Earmarked Reserves</b>		
- Strategic Reserves	-16.370	-9.891
- Committed Reserves	-10.633	-10.633
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	-1.812	-1.999
- Temporary Reserves	-22.975	-14.785
<b>Total Earmarked Reserves per Statement of Accounts</b>	<b>-51.790</b>	<b>-37.308</b>

- 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 56 existing earmarked reserves (excluding unutilised grants and contributions), 30 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 £1.000m 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 £35.2m at the end of 2023/24 and is forecast to rise again in each year to the end of 2026 (the current end of the statutory override). Previously this deficit was held as a negative Earmarked Reserve. However, due to the Statutory Override it is now accounted for as an Unusable Reserve (DSG Adjustment Account). As this is a budget funded by the Dedicated Schools Grant (DSG), the clear guidance from both the Department for Levelling Up, Housing and Communities and the Department for Education has historically been 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, have been part of the Department for Education led Delivering Better Value Programme - this work has now completed with the outcome being reported to Members. The outcome of that work is that by 2028, without mitigation, the Council is expected to have a High Needs deficit of £158m and with mitigation this is expected to be £131m. There is no indication, and it should not be assumed, that these deficits will be written off by central government based on information received although in its submission to government in advance of the Autumn Statement the LGA requested government to confirm that all deficits within the DSG will be written off. It is clear from the national position that the intervention programmes from the DfE have not worked and that the current system is unaffordable and requires legislative change and additional funding. In the absence of this, the position will worsen for all councils with a high number, including Sefton, not having the General Fund Resources to fund any balance that has built up over more than a decade since system reform in 2014. The Council continues to engage to identify a solution to this and provide regular comprehensive reports to both Cabinet and Council, but this issue is a key risk to the financial sustainability of the Council from 2026.

## **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 2023/24, and therefore the opening balance for 2024/25 is estimated to be in the region of **£11.0m**.

### **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 2023/24 is estimated to be **£32.4m**. 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 2024/25 on this.

## **3 Basis of Assurance**

- 3.1 The key fundamental principles of the report's recommendations which the Executive Director – Corporate Resources and Customer Services has considered in giving this assurance are therefore: -
- That the budget strategy for 2024/25 is approved as set out in the report.
  - That all Services manage their finances within the clearly defined cash-limits approved as part of this budget and also the savings that are required to be delivered. Whilst the budget risk is recognised, Assistant and Executive Directors must bring forward options to mitigate any cost overruns in accordance with Financial Procedure Rules in order that formal decisions can be made where necessary.
  - That Council approves the updates to the Medium-Term Financial Strategy to 2026/27 and agrees to the proposals to manage a balanced budget in 2024/25; and

- That the revised Reserves Strategy is approved which will see the General Fund Reserves Minimum Balance start at £30m and then increase by at least a net £2m per annum over the Medium-Term Financial Plan period. As the level of funding increases consideration will be given to making further specific allocations to manage individual risks. The principle that will be in place in the Council is that any use of General Balances must be repaid in the following financial year. In addition, General Balances are not to be called upon for further purposes save in exceptional circumstances with the agreement of the Leader of the Council, Cabinet Member for Regulator, Compliance and Corporate Services, Chief Executive and the Executive Director – Corporate Resources and Customer Services (s151 officer) with any use to be approved in accordance with Financial Procedure Rules.

3.2 The reserves position will need to be kept under review to ensure that the Council maintains a robust budget and sound financial base.

3.3 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.