Report to:	Overview & Scrutiny Committee (Regulation, Compliance & Corporate Services)	**Date of Meeting:**	12 February 2019
Subject:	Robustness of the 2019/20 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25		
Report of:	Head of Corporate Resources	**Wards Affected:**	(All Wards);
Portfolio:	Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

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

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

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

The Council is requested to have regard to the matters raised in this report during the final stages of determining the budget for 2019/20.

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 Budget and Council Tax for 2019/20 and thereby shape the Council's financial plan for future years.

(B) Capital Costs
None

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

Resource Implications (Financial, IT, Staffing and Assets): None
Legal Implications: The Council is required to set a Budget and Council Tax level by 10 March 2019 and must consider the comments of the Chief Financial Officer before that decision is taken.
Equality Implications: None

Contribution to the Council's Core Purpose: A sustainable revenue and capital budget will enable the delivery of the Councils core purpose as set out below

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

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Head of Corporate Resources is the author of the report (FD 5530/19).

Chief Legal & Democratic Officer has been consulted and her comments are incorporated in the report (LD 4654/19).

(B) External Consultations

None

Implementation Date for the Decision
Following the Budget Council Meeting.

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Appendices:
None

Background Papers:

There are no background papers available for inspection.

1. Introduction

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

2. ROBUSTNESS OF BUDGET ESTIMATES

2.1 When preparing the budget for 2019/20 and the third year of the current Budget Plan, the Council's Strategic Leadership Board have led and been fully engaged in the process and have been challenged to ensure that services can be delivered within available funding and that estimates of expenditure and income are realistic. As a result, the Strategic Leadership Board has confirmed that the proposals made within this budget package both from the Public Sector Reform projects and service options are deliverable.

2.2 The proposed budget, due to the scale of the funding gap faced by the Council and the in-year financial pressure that has been generated in 2018/19, has been prepared with careful consideration and full acknowledgement of the risk and uncertainty around both the proposals made and existing pressures faced by the Council. As this risk cannot be fully mitigated, e.g. as a result of the 'demand' pressure facing both Adults and Children's Social Care budgets, it is important that these proposals are considered alongside the level of reserves held.

2.3 In order to provide assurance that the Council's budget estimates are robust and that the Council is adequately protected as far as possible against unbudgeted financial pressures and the impact on Council Taxpayers is minimised, a number of factors are considered as part of the budget planning process.

Factors to be Considered

Financial Environment for Local Government and Sefton MBC

2.4 The Financial Environment within which local government is currently operating continues to be extremely challenging. After nearly 10 years of the government's austerity programme, there are an increasing number of authorities who are experiencing severe financial stress, both in terms of managing in year budgets and setting sustainable annual budgets.

2.5 Sefton has a successful track record of meeting its financial challenges and remaining on a sustainable financial footing, however the new and unforeseen in-year pressure of £8-£10m, that has been experienced in 2018/19 highlights the inherent risk that exists especially within those services that support the Council's most vulnerable residents.

2.6 Due to the scale of reductions that have taken place since 2010, the opportunity to manage new in year pressure of the value experienced in 2018/19 and then find the subsequent long-term savings is becoming increasingly difficult, but is essential in order for the council to remain financially sustainable. The management of this pressure remains one of the biggest risks facing the council over the next 12 months.

2.7 This situation is compounded for all local authorities and Sefton, with the absence of any sustainable long-term funding solutions being made available from Central Government in relation to Adults and Children’s Social Care and Schools and Families. Within Adults Social Care, the much-publicised long-term funding gap has yet to be met and a sustainable funding solution has yet to be developed, with Councils being offered short term funding options that are one-off in nature and fail to meet the level of resources required. Likewise, nationally over the last 18 months, Children’s Social Care has experienced significant increases in both the number of children requiring support and the cost of providing this. There has been much lobbying and requests for support but again an appropriate long-term solution that supports these vulnerable children is not yet in place.

2.8 A number of local authorities are in the same position as Sefton, in having to manage this pressure and this will need diligent monitoring and the identification of remedial actions throughout the year to ensure that the appropriate level of service can be provided.

Impact of Previous Years’ Budget

2.9 As a result of this environment, there has been an increased emphasis in developing this year’s budget on ensuring that these key services start the year with an appropriate budget to meet current demand. In setting the budget for 2019/20, the forecast budget shortfall on four services (Adults and Children’s Social Care, Schools and Families and Locality Service Provision) has been taken as the starting point for developing a sustainable budget.

2.10 As a result of this and the impact that this will have on previously approved Public Sector Reform proposals, an additional £13m of savings and Medium Term Financial Planning assumptions have been identified for implementation in 2019/20. These proposals are in addition to those previously approved for 2019/20 as part of the Councils three-year budget package (2017/18-2019/20) and mean that in next year a budget shortfall of £22m will need to be met.

2.11 Whilst the Council’s original plan to meet its three year budget shortfall of £64m is on track, the additional financial pressure, presents the Council with a number of challenges that will need to be managed in the next 12 months, namely:-

- The need to divert additional member and senior officer capacity to delivering additional savings at the expense of delivering core services;
- That the ‘demand’ trend within Adults and Children’s Social Care and Schools and Families continues to increase thereby presenting the council with the real risk of additional financial pressure; and
- That due to the lack of sustainable funding solutions, and the inadequate short-term funding provided by Government, the Council has used whatever flexibility it has in 2018/19, thereby limiting its opportunity to fund any new pressure in 2019/20.

2.12 As a result of this, the Council’s approach to the risk management of the budget as set out later within this report will be critically important in 2019/20.

Four-year settlement and Central Government funding

<u>2019/20</u>

2.13 The financial settlement received for 2016/17 provided details of the funding levels to be received by the Council up until 2019/20. These levels reflected the decision of the Council to accept central government's offer of a four-year financial settlement (2016/17 to 2019/20).

2.14 Whilst this certainty has been welcomed, with over 95% of councils accepting the multi-year settlement, the lack of flexibility within the settlement to reflect the changes and demand pressures faced by local authorities during these 4 years remains a cause for concern. As has been set out, the pressure on the councils most vulnerable services continues to increase both in terms of service demand and the incremental cost (caused by all authorities being in a similar position). These services now make up over 64% of the council's net revenue budget, therefore the lack of sustainable funding and the opportunity to make savings in these areas that can contribute to the overall £64m challenge are extremely limited. In addition, government one-off funding is often received at short notice and is far below the level required, thereby making budget planning difficult both in the short and medium term.

2.15 In respect of the 2019/20 budget, all of the Medium Term Financial Plan assumptions have been updated and are based upon confirmed funding due or latest detailed estimates e.g. council tax receipts.

2.16 As was reported in previous years, the Council is cognisant that its future funding is now more closely aligned to the generation of local income as opposed to central government support than would have historically have been the case.

2.17 The budget proposed therefore further acknowledges not only the need to reform current service delivery and make savings in a number of areas, but also that the future financial sustainability of the Council will need to be supported through the drive to deliver economic growth and develop additional and increased income streams. The current expenditure plans within this budget rely on sustaining existing levels of economic activity with growth in properties subject to Council Tax and Business Rates income.

Maintaining Service Delivery

2.18 The scale of the budget shortfall that the Council has faced for period of this MTFP up until 2019/20 is severe and has required a transformational approach to ensure that the Council's core purpose that was derived from the Sefton 2030 vision can be delivered. This is clearly reflected in the budget proposals agreed in March 2017 and which have been updated as part of the 2019/20 budget setting process. This includes projects within the Public Sector Reform programme and the Strategic Investment / Economic Growth workstreams.

2.19 Whilst there will be an impact on the level of service that the Council is able to provide, all proposed changes continue to be subject to careful consideration, impact assessment and consultation before implementation. Such an approach has been utilised extensively in the first two years of the budget plan and will continue into 2019/20 and beyond. As previously discussed the ability to meet the increased demand in Adults and Children's Social Care, Schools and Families and Locality Service Provision arising from 2018/19 has been a key aspect in developing this budget.

Resources to Deliver Change

2.20 The approach to the current three-year budget package is transformational in nature and different to the approach taken by the Council in previous years as it has sought to meet its financial challenges. In order to deliver this, the shape of the Council and the approach to service delivery has and will continue to change significantly in a number of areas. Within the three-year budget package, provision was made to enable the delivery of a number of projects. This work has commenced and investment in infrastructure to support front line services, investment in ICT and specialist advice and support has been made and will continue to be required not only in 2019/20 but also in the period beyond the current Medium Term Financial Plan. This funding continues to be held centrally and bids will be evaluated on a case by case basis by the Chief Executive and the Leader of the Council in order to determine allocation. Similarly, due to the transformational nature of proposals, the resource requirement from both members and senior officers will be key to successful delivery. Enabling sufficient capacity to the delivery of projects within the Framework for Change will be crucial.

Inflation and Annual Cost Increases

2.21 The Council, as in previous years, has provision for specific allocations to provide funding for contractual and other inflationary pressures such as annual pay increases. This reflects the latest information available having conducted a Council wide review of existing contracts and the likely impact of future pay negotiations. Within this budget package however there continues to be no provision for general price inflation. Due to the severity of the financial challenge facing the Council, services will be required to manage any such pressure within their existing cash limits.

Financial Management

2.22 The Council has an embedded process with regard to its Financial Management and its reporting strategy reflects the monitoring undertaken by the Strategic Leadership Board, budget holders and the central Finance Team. Monthly reports are considered by Departmental Management Teams, Strategic Leadership Board and Cabinet. Overview and Scrutiny Committee also have a standing agenda item in respect of capital and revenue monitoring.

2.23 To support this approach and the inherent risk that is within the budget, a financial management review is currently taking place. To date Financial Procedure Rules and Schemes of Delegation have been updated, that have re-enforced the roles and responsibilities of Heads of Service, Budget Holders and finance staff and a training programme for these parties is also underway.

2.24 It has been stated both within this and also the wider budget report that the level of financial risk facing the Council and indeed all local authorities is increasing and that the budget estimates contained for the Council over this Budget Plan period reflect the Council's ambition to deliver services that align with its 2030 vision, core purpose and ensure that it remains financially sustainable.

2.25 In order to manage these risks and objectives, the Strategic Leadership Board and Members will need to monitor progress and delivery of each proposal and the financial performance of all services and instigate remedial action where issues are identified. The Council, despite having to address budget shortfalls since 2010 of £233m, has a strong track record of delivering savings, however due to the funding gap that continues to be faced and the transformational activity proposed this monitoring will be of even greater importance.

CIPFA Financial Resilience Index

2.26 CIPFA has recently published a first iteration of a Financial Resilience Index (which will be subject to further development over the coming months). This Index is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. There are 13 indicators which are compared to other local authorities. Seven of these indicators relate to the level of reserves held, three relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and three on the reliance of specific types of funding (Government Grants, Council Tax and Business Rates). As with any analysis of this type, it is based on raw data so needs to be carefully evaluated and local conditions considered before drawing conclusions.

2.27 When compared to other metropolitan district councils Sefton would appear to compare favourably (this being a relative conclusion when the overall financial environment within with the Council is operating is considered) in relation to its budget flexibility, i.e. relatively it spends a lower proportion of its budget on high risk services where the ability to reduce overall expenditure on these services is less due to rising demand. Sefton also compares favourably in that it is relatively less reliant on grant income. However, the Index shows that Sefton is at a higher risk of financial stress (relative to others) due to its level of reserves and balances at the end of 2017/18 being lower than other metropolitan councils. This is mainly due to the temporary use of Earmarked Reserves to fund the upfront payment of the Local Government Pension Scheme Deficit. The implications of this on these indicators is discussed further in Section 3.

Management of Risk

2.28 The Council manages risk on an ongoing basis at all levels of the organisation. In doing so it has developed policies, processes and systems that reflect its internal governance arrangements and the constitution. As far as possible this allows the Council to anticipate risks as they emerge. These processes are supported by the

Council's Internal Audit and Risk Section, the annual review of Corporate Governance and the completion of the Annual Governance Statement.

2.29 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. In the event that these have a material impact on the Councils budget a remedial action plan will be required both for the current year and to identify long term sustainable savings.

2.30 Within 2018/19, the Council made a decision to conduct a comprehensive mid-year review (as at end of July 2018) in order that members and officers could gain assurance on the deliverability of savings and visibility of any other emerging issues. This has proven to be an invaluable exercise in that it identified and forecast the in-year budget pressure of £8-10m and allowed sufficient time in order for a remedial plan to be developed and implemented. As a result of this and the ever increasing financial pressure, and to align with the development of the councils corporate performance framework, detailed and comprehensive reviews will be conducted at the end of Quarter 1, mid-year and quarter 3 from 2019/20.

2.31 2019/20 represents the final year of the Council's current three-year budget plan and the setting of multi-year budgets within the Framework for Change programme has once again proven to be the correct decision in order to support service delivery, manage financial risk and deliver financial sustainability within ever tightening financial constraints. The Council will therefore commence the development of the next three-year MTFP (2020/21 to 2022/23) during 2019. At this stage, the funding envelope that the Council will be required to work within is unclear as Central Government embarks upon the review of the Business Rates retention model, a fair funding review and the review of Adult Social Care funding. These three reforms would represent the largest reform of local government finance in a generation and the impact will be significant for all Councils including Sefton.

2.32 The Council currently has a budget planning assumption that it may have to save a further £15m per year over the next three years (£45m in total), however until there is clear visibility on these reforms and the government 'promise' that the austerity programme will come to an end is understood, this planning assumption could and will vary considerably. In addition, central government has provided local authorities with limited one-off funding in 2019/20. This funding, whilst welcome, will not be available from 2020/21 therefore the importance of sustainable long-term funding that is in excess of current levels (and that aligns with the current government pledge that the austerity programme is over) will be critically important. As with each financial year, Officers will engage and lobby on all aspects of the reform programme in order to seek the most advantageous outcome for Sefton, but in the meantime the development of the next phase of reform projects will commence and will be facilitated by officer led Budget Development Sessions that will feed into Member discussions. The outcome of this work over the next nine months will be the setting of a new three-year budget in February/March of 2020.

Capital Strategy and Strategic Investment

2.33 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 2019/20 and an indicative plan for future years.

2.34 The Council as stated previously has identified that its economic growth and strategic investment workstreams are key to supporting its 2030 vision and core purpose in addition to financial sustainability. With the reduction in capital resources that are available from central government, the council will continue to explore opportunities and methods to generate funding to support these activities over the next 3-5 years. This approach is reflected in the budget report. Where a proposal to generate an income stream can be generated, the use of prudential borrowing will be considered and in addition the use of capital receipts from PSR8- asset maximisation will be a key feature of the investment strategy.

2.35 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

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

3. RESERVES STRATEGY 2019/20

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

General Fund

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

3.3 Determining the level of General Fund Reserve forms a key part of the Council's medium term financial strategy and will be informed by an assessment of the risks presented by:

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

3.4 A historical benchmark minimum level that is used by a number of authorities is for the General Fund Reserve to be maintained at between 3-5% of the Council's net budget. This can be considered to be a minimum level of reserves in keeping with the long-term background risks the Council shares in common with all other councils. This is referred to as the normal risk accepted. However, this rate will not take account of variable factors such as the economic climate, government policy and local factors. 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 continues to prove challenging with the potential for business closure, lower than normal income levels and shortage of alternative funding sources from partners. As Council funding is now more dependent on the performance of the local business sector it is more exposed to the consequences of businesses failing or a lack of demand for local facilities.

3.6 **Anticipated reductions in Government funding** – the level of funding that it is anticipated that the Council will receive in 2019/20 reflects the four-year local government finance settlement accepted by the Council. In addition, the Council has been notified of other grant allocations and one-off funding for 2019/20. These funding levels are included in the Budget Plan. At this stage, it is not expected that there will be any impact on funding available in 2019/20 as a result of Brexit, however this will inevitably impact upon future years' allocations.

Local Considerations

3.7 **Planned changes in service delivery methods / contracts** – The Council continues to review the way in which it delivers services in order to ensure best practice and value for money for its residents. In addition, the budget proposals involve significant transformational change as to how services are provided. This will result in significant 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, particularly in respect of Adult and Childrens Social Care and Schools and Families. Based on the financial position as at the end of December 2018, these budgets have been re-aligned for 2019/20, however as discussed in this report there is still significant risk that needs to be allowed for.

3.9 **Legal Challenges** – The Council from time to time make decisions (policy and operational) that could be subject to challenge or appeal from affected bodies. It is therefore prudent for the Council to have some capacity to safeguard against such challenges.

Budget Setting Assumptions

3.10 **Sensitivity of budget assumptions** - The Council's budgets for 2019/20 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 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 Plan developed** – Given the scale of the funding reductions that the Council faces, a three-year plan (of which this is the third year) was been developed which will allow it to plan ahead with more certainty and this has helped to ensure that savings plans are identified well in advance of their implementation and short term reactive measures have not been necessary.

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 (lower level)	**3.0%**	**6.6**
National Considerations		
Impact of economic climate on Council costs	1.0%	2.2
Anticipated reductions in Government Funding	0.5%	1.1
Local Considerations		
Delivery of planned changes in service delivery methods/contracts	1.0%	2.2
Costs at risk from potential legal challenges	0.5%	1.1
Rising demand for services	1.5%	3.3
Budget Setting Assumptions		
Sensitivity of budget assumptions	1.0%	2.2
Significant earmarked balances	-2.5%	-5.5
Management / Member Actions		
Clear corporate / Member messages	-1.5%	-3.3
Three-year plan developed	-1.0%	-2.2
Total Abnormal Risk	**0.5%**	**1.1**
Total Risk	**3.5%**	**7.7**

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2019/20 should be in the region of £7.7m. A range of £1.0m is advised around this figure so a General Fund between £6.7m and £8.7m would be considered prudent. This represents 3.5% of the net budget.

3.16 The Council started 2018/19 with a General Fund balance of £9.132m. Incorporating the latest projections of expenditure for 2018/19 and the resultant anticipated use of General Balances it is estimated that the level of the General Fund by 31 March 2019 will be £7.209m. This would be within the assessed prudent range for 2019/20 and the risk assessed level will be kept under constant review. It should be noted that within the budget presented, a contingency sum of £1m has been included. Traditionally this sum has not been included within the budget, however in light of the extreme pressure in Adults and Children's Social Care and Schools and Families, it is considered that this is required. This is an additional provision to the general fund reserve.

3.17 The level of risk and the associated levels of General Fund balance required to hedge against that risk will be reviewed on an ongoing basis. In the current times of uncertainty, and financial pressures, the S151 officer considers it prudent to maintain reserves at a higher level than might be expected in a more stable economic climate, and to review against the extent of future ambitions and risks during the forthcoming year.

Earmarked Reserves

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

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

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

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

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

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

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

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

	April 2018	Anticipated March 2019
	£m	£m
Earmarked Reserves		
- Strategic Reserves	22.888	17.711
- Committed Reserves	12.589	12.589
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.934	1.934
- Temporary Reserves	7.668	6.003
	45.079	**38.237**
School Earmarked Reserves	0.916	0.916
Total Earmarked Reserves	**45.995**	**39.153**
Temporary Use of Earmarked Reserves to Fund Pension Deficit Repayment	-20.308	-10.154
Total Earmarked Reserves per Statement of Accounts	**25.687**	**28.999**

3.21 The benefits of holding earmarked reserves needs to be weighed against the costs of doing so. Every discretionary earmarked reserve ties up funds that may otherwise be available to fund the core activities of the Council. Each reserve also carries with it an administrative overhead as they will need to be maintained, monitored and reported on.

3.22 Of the 55 existing earmarked reserves, 22 are to be retained over the medium term or beyond. Each of these reserves will be subject to a regular monitoring process to ensure they remain relevant and are achieving their stated objectives. The remaining reserves held are expected to have fulfilled their purpose within the planning period and will be closed at that point. Any surplus funding on these reserves on completion of proposed activities will be appropriated to the General Fund or returned to the original funding source.

3.23 At present the budget package for 2019/20 does not assume that any reserves will be used to support the delivery of savings, indeed £2m of previously utilised one - off reserves that were used to phase the introduction of savings will be returned to reserves in 2018/19 as set out in the 3 year budget plan. Any past and future use of these reserves is directly attributable to the delivery of long term sustainable savings.

Comparison of all Revenue Reserves

3.24 As mentioned in paragraphs 2.26 and 2.27, CIPFA has produced a first iteration of a Financial Resilience Index to assist local authorities in identifying early indicators of financial stress. Seven of the 13 indicators relate to the level of Earmarked Reserves and Balances held by the Council. These comparisons are shown relative to the net budget of each Council to remove the effect of the different sizes of each body.

3.25 The latest information produced by CIPFA reflects March 2018 balances. When comparing Sefton to other metropolitan district councils it would appear that Sefton is at more risk of financial stress due to its relatively low level of Earmarked Reserves and balances. However, this is mainly due to the temporary use of Earmarked Reserves to fund the upfront payment of the Local Government Pension Scheme Deficit (which has reduced Earmarked Reserves by £20.308m).

3.26 If this accounting adjustment is excluded from Sefton's indicators then they compare more favourably with other Councils. For example, the total level of Reserves and Balances would be 24.4% of net revenue expenditure. Out of the 36 metropolitan district councils, ten others have an indicator of between 20-30% with 22 having a higher percentage. Whilst each authority's assessment of risk will vary, this benchmarking process provides a broad indication that levels are adequate but not excessive. However, this level does reflect that the use of reserves needs to be carefully considered and be aligned to the delivery of financial sustainability.

Capital Reserves

Capital Receipts Reserve

3.27 The Council retains a capital receipts reserve to finance future capital expenditure. This reserve is financed by capital receipts set aside on the disposal of land, buildings and other assets as well as well as amounts received from One Vision Housing relating to the Council's share of Right to Buy receipts.

3.28 The nature of this reserve determines that the balance will vary with the timing of the receipts and the Council's capital schemes that the receipts are being used to fund. The balance at the end of 2017/18 was **£5.675m**.

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 2017/18 was **£9.333m**. This funding will be utilised in future years. However, additional grants and contributions will be received that won't be fully utilised in the years they are received so will remain in the Reserve until utilised.

School Reserves

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

4. CONCLUSION

4.1 Based upon the information contained within this report, it can be seen that although the councils 3 year financial plan is on target, 2019/20 will represent another significant financial challenge. In addition to a substantial savings package that needs to be delivered, the continually increasing demand being experienced in core councils services and the lack of funding available presents a real risk to the council that will need to be managed throughout 2019/20 as it has been in 2018/19. In the event that this pressure materialises, robust remedial plans will need to be developed and presented to members for decision in order that financial sustainability is maintained. Due to the existing pressure within the budget, the identification of such proposals will become increasingly difficult but all options will need to be explored, considered and implemented efficiently and these will be reported regularly to members.

The information provided from the initial work undertaken within the CIPFA financial resilience index, outlines that the Councils reserves whilst being at a level that can support the budget and being comparable with a number of authorities, are not excessive. As such this level will need to be kept under careful monitoring with any use of reserves carefully managed and directed towards maintaining financial sustainability. As such these reserves offer limited flexibility and it is considered prudent to maintain them at, at least current levels.

4.2 Alongside this programme, work needs to commence on the Councils next 3 year budget. A forecast large budget shortfall will require further difficult decisions to be made but this scenario is further complicated by the absence of any firm detail around the financial envelope that the council will work be working in. As such the planning total is considered fit for purpose, but the fact that officers and members have less than 12 months to develop a budget package for the next 3 years when the key changes that are proposed from the reform of local government finance and their impact are not known, again presents a real risk that will need managing over the next 9 months. Throughout this period and in advance of the councils MTFP being reported in the autumn of 2019, officers will seek to evaluate the impact of these changes and communicate them to members accordingly.

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