Report to:	Cabinet Council	**Date of Meeting:**	13 February 2020 27 February 2020
Subject:	Robustness of the 2020/21 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 2020/21.

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 2020/21 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 on or before 10 March 2020 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: Effective Financial Management and the development and delivery of sustainable annual budgets support each theme of the Councils Core Purpose.

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

Cleaner Greener: See comment above

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 5937/20).

The Chief Legal and Democratic Officer has been consulted and his comments are incorporated in the report (LD 4121/20).

(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 2020/21, it has once again been essential that 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 are deliverable.

2.2 2019/20 was the final year of the Councils three-year budget package (2017/18 to 2019/20) and this will see the successful delivery of the Framework for Change 2017 programme that also ensured that the Council remained financially sustainable. This required the Council to meet a funding shortfall over the period of £64m.

2.3 In advance of the 2020/21 budget cycle it was the intention to develop a further three-year budget package for the period 2020/21 to 2022/23 in order to build on the success of setting multi-year budgets, however for the reasons outlined within the remainder of this report, and the lack of information from central government, this has not been possible. Therefore, whilst the Council has outlined its Medium-Term Financial Plan for these three years (which will need continually updating and will be subject to extensive change) and is proposing what its Framework for Change 2020 programme will deliver, at this stage, and like a number of other local authorities, a one-year budget is proposed.

2.4 The proposed budget, due to the financial settlement coming much later than previously anticipated due to the 2019 General Election, the in-year financial pressure that has been generated in 2019/20 and the lack of sustainable funding provided, 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.

2.5 It is clear however that this risk cannot be fully mitigated, as a result of the 'demand' pressure facing Children's Social Care in particular. This budget over the last 2 years has required additional support of over £7m and further growth of this level is not sustainable. The 2020/21 budget has been set based on the position as at the end of November 2020, however there is a real risk that the pressure on this budget in the remainder of the year and in 2020/21 will increase further. As such the council will be required to identify offsetting measures to alleviate any further pressure that arises and members will be required to inform, influence and decide upon these during 2020/21. These proposals will also need be considered alongside the level of reserves held by the Council.

This is the primary issue in the development of the 2020/21 budget and is the most significant risk at present to the financial sustainability of the Council. As would be expected, work has commenced to identify options that can be introduced to reduce the cost pressure in the service, and this has involved the investment in external expertise. The financial impact from this work has not been built into the 2020/21 budget at this stage, rather this will be built into the overall monitoring during the year.

2.6 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

2.7 The Financial Environment within which local government has operated in since 2010 has been extremely challenging. As reported last year, after 10 years of the government's austerity programme, there are a significant number of authorities who are experiencing severe financial stress, both in terms of managing in year budgets and setting sustainable annual budgets- this has been documented in the Chartered Institute of Public Finance and Accountancy's (CIPFA) recent resilience index publication. This has been compounded for councils with the increase in demand for services, especially Adults Social Care and Children's Social Care over the same time period. As stated, Children's Social Care in particular, and the rise in the number of Looked after Children, has been the single largest risk to financial sustainability for Council's across the country in the last three years and will continue to be so in 2020/21.

2.8 It was anticipated that during 2019, that there would be a fundamental review of local government finance with a comprehensive spending review, a fair funding review and the much anticipated reviews of Adult Social Care and Business Rates retention schemes. These reforms had the stated objectives of providing councils with a transparent and sustainable funding model that would enable effective service delivery and support to local communities and people.

2.9 Due to the political instability within the UK during 2019, none of these reforms have taken place and therefore a one-year spending review was announced by the Chancellor of the Exchequer in September 2019 for 2020/21. Whilst this was not surprising at that point in time, for all councils it has meant that on the rise of 10 years of unprecedented service and budget reductions, sustainable financial planning is not possible, and the funding allocated to councils such as Sefton remains insufficient. This increases the financial risk to all councils including Sefton and this risk cannot be underestimated.

2.10 Over this last decade, Sefton has a successful track record of meeting its financial challenges and remaining on a sustainable financial footing, however it continues to face significant financial risk. Over 10 years the Council has met a budget shortfall of £233m but each year the challenge increases. As previously stated, additional funding of £7m has been required to support Children Social Care to take account of the increased number of looked after children who require placements. This has meant that compensatory short-term savings have been required in all other council services and any in year flexibility directed to this service. If this pressure continues until year end in 2019/20, the Council will not be able to absorb this within its general fund account for the year and maybe required to use reserves.

2.11 Due to the scale of reductions that have taken place since 2010, the inherent financial pressures and risk that are faced by the Council and the lack of sustainable funding, the financial risk facing the Council at this time is as high as it has ever been and will require difficult decisions to be made continually throughout 2020/21 by members in order for the Council to remain financially sustainable.

Impact of Previous Years' Budget - 2019/20

2.12 As a result of this financial environment, there has been an increased emphasis in developing this year's budget on ensuring that services start the year with an appropriate budget to meet current demand. In setting the budget for 2020/21, any service with a forecast budget shortfall at the end of November 2019, has seen this issue addressed in order that they can start the year with a sustainable budget. This equates to £2.850m and builds on the £7.8m that was also allocated to services (including Children's Social Care) during 2019/20 to meet demand pressure.

2.13 In addition, 2019/20 was the last year of the Council's previous three-year budget and this has seen £0.950m of previously approved savings not being delivered and £4.229m of one -off savings and funding sources falling out. This totals £5.179m and in developing the 2020/21 budget this sum will need to be met.

2.14 As previously stated the largest inherent financial risk arising from 2019/20 in setting next year's budget is around Children's Social Care. The number of looked after children requiring placements has increased from 525 to 558 (as at end of November 2019) during the course of the year and this has added significant pressure to the budget. This upward trajectory is being experienced by a number of local authorities and whilst the Council is taking steps through the demand management project to reduce this, the financial risk for the forthcoming year is significant.

Central Government funding

<u>2020/21</u>

2.15 For 2020/21, the Council has received a one-year financial settlement. This one-year settlement presents the Council with two immediate risks. Firstly, it has been reported that additional funding has been provided to Councils for 2020/21, however after 10 years of austerity and the pressure that exists in the Council's demand led budgets this additional funding, whilst welcome, remains insufficient to meet current service requirements and does not provide the Council with any funding to offset any previous budget reductions. Therefore, there remains a significant financial challenge for the Council in 2020/21 to remain sustainable, and there is no flexibility for budget variations or investment.

2.16 Secondly, one of the primary reasons that the Council has remained financially sustainable in the face of the austerity programme has been its ability to develop multi-year budgets that have enabled informed decisions to be made by members. As stated earlier in this report, with the delay in key funding reforms and the one-year settlement, whilst the Council can outline its Framework for Change 2020 programme and has produced a three-year Medium-Term Financial Plan for 2020/21 to 2022/23, it is not possible to make key service and policy decisions beyond this year that are aligned to the budget. This in effect means that financial risk for the council is further increased.

2.17 The availability of central government funding is, as would be expected, one of the biggest financial risks faced by the Council. The impact of 10 years of austerity has left the council making unreconcilable choices in how it utilises its scarce resources. A key feature at this time is that within the current funding provided, much of this is now one-off in nature especially in respect of social care. To some extent this one-off funding reflects the lobbying and coverage of the demand pressures across the country that have led to some additional funding being allocated, but it also means the Council is uncertain as to whether this will be available in the medium term. With the new government coming to power this is a key issue for the Council.

2.18 Similarly, for 2020/21 it was announced that whilst a lower council tax rate of 1.99% could be levied, a further adult social care levy of 2% could also be approved. This levy means that the burden for supporting core services is further passed to local residents through the annual council tax bill as opposed to funding being made available. As the Council has a low tax base, and the government expects councils to raise council tax by these levels, this means that the Council does not have the means to raise sufficient funds in order to meet its requirements.

2.19 This scenario for 2020/21 on the back of 10 years of austerity leaves the Council financially vulnerable both in the current year and future years and presents real risk that will need to be managed but may not be able to be fully mitigated.

Maintaining Service Delivery

2.20 The scale of the budget shortfall that the Council has faced over the last decade has led to both service reductions and a transformational approach to all areas of activity in order to ensure that the Council’s core purpose that was derived from the Sefton 2030 vision can be delivered. For 2020/21, the key challenge faced by the Council is that its demand led budgets, e.g. Adults and Children’s Social Care and home to school transport, continue to require investment in order to meet existing demand. There is an upward trend within each of these areas that needs to be met by the Council and whilst in this budget this has been met (based on end of November 2019 information) there is no room for variation on this.

2.21 These budgets represent 63% of the Council’s net budget, and as further support is provided to the most vulnerable within the Council’s communities, it means that compensatory savings or no investment is possible in other key council services. This position will continue into 2020/21 and if additional investment is required in these services it will need to be funded from compensatory savings elsewhere in the approved budget.

2.22 The key feature of this budget from a service delivery point of view has therefore been to try and meet the existing demand for these services within the financial envelope possible whilst managing the wider risks that are discussed in the report.

Resources to Deliver Change

2.23 The Council's approach to the delivery of change is now embedded and reflects the transformational nature that is required in order 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. The Framework for Change 2020 programme will therefore 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 together with funding to transition service changes will be required over the three-year programme. Provision has therefore been made within this budget package and this will continue to be held centrally. Proposed bids for this funding 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 input from both members and senior officers will be key to successful delivery. Enabling sufficient capacity to the delivery of projects within Framework for Change 2020 will be crucial.

Inflation and Annual Cost Increases

2.24 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

2.25 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.

2.26 To support this approach and the inherent risk that is within the budget, a financial management review took place in 2019 and all service schemes of delegation will be updated prior to the commencement of the new financial year in order to further define and re-enforce the roles and responsibilities of Heads of Service, Budget Holders and finance staff. In addition, Financial Procedure Rules are in the process of being reviewed and will be presented to Council in May 2020 for approval.

2.27 It has been stated both within this report and also the wider budget report, that the level of financial risk facing the Council and indeed all local authorities is increasing 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.

2.28 In order to manage these risks and objectives, the Strategic Leadership Board and Members will need to monitor each element of the Council's budget and demand for services forensically and in accordance with best practice in order that this risk can be mitigated as far as possible. Due to the level of risk that now exists this monitoring will be of even greater importance as will the speed that decisions are made in order to implement mitigating actions that will ensure financial sustainability.

CIPFA Financial Resilience Index and the CIPFA Financial Management Code

2.29 The financial risks facing the Council in 2020/21 and beyond have been set out within this report and the wider budget report and as would be expected after the last decade, this level continues to rise. This is similar for most local authorities.

2.30 During the last three years, it has been widely publicised that a number of these authorities have encountered real financial difficulties and the events at Northamptonshire, Birmingham and Surrey are notable. In response to this, CIPFA are mandating two key annual assessments that aim to evaluate a council's financial resilience and ensure that financial management is of the required standard across the organisation.

<u>CIPFA Financial Resilience Index</u>

2.31 CIPFA has developed its Financial Resilience Index which is intended to assist local authorities by identifying various indicators of potential financial stress for the organisation. There are 15 indicators which are compared to other local authorities - 7 of these indicators relate to the level of reserves held compared to net revenue expenditure, 5 relate to the proportion of expenditure on high risk services (e.g. Adult and Children's Social Care) and 3 on the reliance of specific types of funding (Government Grants, Council Tax and Business Rates).

2.32 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, being more reliant on council tax income as an overall percentage of its funding.

2.33 However, the Index shows that Sefton is at a higher risk of financial stress (relative to others) due to its level of reserves (both General Fund Balances and Earmarked Reserves) at the end of 2018/19 being relatively lower than many other metropolitan councils. The level of Sefton's Earmarked Reserves being low is partly due to the temporary use of Earmarked Reserves to fund the upfront payment of the Local Government Pension Scheme Deficit (reserves will be replenished in 2019/2020). In addition, Earmarked Reserves are held for specific purposes so the level of reserves held by a local authority will be dependent on the specific circumstances that exist.

2.34 General Fund Balances aren't held for a specific purpose but to give the Council the ability to manage unexpected events. The Council has had a relatively stable level of General Fund Balances for a number of years, showing that in-year budget pressures, which have often been significant, have been managed without the need to call on balances. However, the Index has highlighted the relatively low level of Sefton's General Fund Balances when compared to other metropolitan councils. The average level of balances held is in the region of 5.5% of net revenue expenditure versus Sefton's current level of approximately 3%. A strategy to address the low level of balances is discussed further in Section 3.

CIPFA Financial Management Code

2.35 In addition to the Financial Resilience Index, CIPFA have also developed a Financial Management (FM) Code. This FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities. This Code was launched in November 2019 and authorities are required to introduce this in 2020/21 prior to full implementation in 2021/22.

2.36 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.

2.37 As part of this budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation. This output will be shared with the Council's external auditor and will be presented to a forthcoming meeting of Audit and Governance Committee

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. 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. In the event that these have a material impact on the Councils 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 recommendations 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 reviews. These are designed to enable members and officers to gain assurance on the deliverability of savings and visibility of any other emerging issues. This has proven to be an invaluable exercise in each of the last two financial years when significant budget pressures have been experienced and have allowed sufficient time in order for a remedial plan to be developed and implemented. This process will continue into 2020/21 as due to the factors discussed in this report there will be budget pressure that will need to be met and for which additional resources are not available to the Council.

2.41 The Council has developed its next three-year MTFP (2020/21 to 2022/23) and this was approved by Cabinet in November 2019. Whilst there was a degree of confidence in the estimates available for 2020/21, those in respect of the subsequent two years will be the subject of change. This reflects at that point in time an absence of any material policy or financial information on which to base these estimates. As such, the funding envelope that the Council will be required to work within is unclear with the new government's approach to the Business Rates retention model, the comprehensive spending review, the fair funding review and the review of Adult Social Care funding yet to be defined in order that robust financial planning that informs policy decisions can be made.

2.42 The Council currently has a budget planning assumption that it may have to save a further £19.1m across 2021/22 and 2022/23 (before taking account of any additional demand pressure), however until there is clear visibility on these reforms, this planning assumption cannot be confirmed. 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 Framework for Change 2020 programme will commence in order to meet this funding shortfall but cognisant that the outcomes and savings may need to be increased if the financial scenario facing the council is more adverse than currently forecast.

Capital Strategy and Strategic Investment

2.43 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 2020/21 and an indicative plan for future years.

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

2.45 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

2.46 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 2020/21

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

General Fund

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

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

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

3.4 A historical benchmark minimum level that is used by a number of authorities is for the General Fund Reserve to be maintained at between 3-5% of the Council's net budget. This is a level that has been maintained by the Council in recent years, however as the CIPFA resilience index has identified, Sefton has a level of General Fund reserves that would place it at a high level of risk in terms of financial stress. From this analysis it is suggested that a minimum reserves level of 5.0% would be appropriate for the Council. 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 2020/21 reflects the one-year spending review announced in September 2019 and the Provisional Local Government Finance settlement received on 20 December 2019. In addition, the Council has been notified of other grant allocations for 2020/21. 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 2020/21 as a result of Brexit, however this will inevitably impact upon future years' allocations.

Local Considerations

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

3.8 **Impact of Rising Demand for Services** – The Council continues to face increasing demand for its services. Investment has been included in the 2020/21 budget, however as discussed in this report there is still significant risk that needs to be allowed for particularly in respect of Adult and Children's Social Care and Schools and Families. Based on the financial position as at the end of November 2019, these budgets will be re-aligned for 2020/21, 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 2020/21 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 Medium Term Financial Plan and One-year budget** – Given the funding uncertainty facing the Council and the increased demand for Council services the Council has developed a three-year Medium-Term Financial Plan and a Framework for Change 2020 programme. These plans will allow the Council to develop proposals that will meet the budget requirement when the reform of local government finance and the comprehensive spending review have been completed. The lack of information from central government to this point, that has meant only a one-year budget can be proposed at this stage, increases the financial risk facing the Council.

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

Factors Considered	**Risk Impact % of net budget**	**Impact on General Fund Balances**
		£m
Normal Risk Level (minimum level)	**5.0%**	11.0
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
Earmarked balances	-2.5%	-5.5
Management / Member Actions		
Clear corporate / Member messages	-1.5%	-3.3
Three-year MTFP and Framework for Change 2020	-1.0%	-2.2
Total Abnormal Risk	**0.5%**	**1.1**
Total Risk	**5.5%**	12.1

3.15 This shows that a risk adjusted assessment of the required level for the General Fund in 2020/21 should be in the region of £12.1m. A range of £1.0m is advised around this figure so a General Fund reserve between £11.1m and £13.1m would be considered prudent. This represents 5.5% of the net budget.

3.16 The Council started 2019/20 with a General Fund balance of £7.539m. The 2019/20 budget assumes no use of General Balances; however, this will be dependent upon the actual outturn position. Assuming the forecast outturn position is balanced, then General Balances will remain at £7.539m. This is therefore below the assessed prudent range for 2020/21.

3.17 As stated in paragraph 2.33, the CIPFA resilience index suggests that a level of General Fund Reserves of 5.5% would be appropriate. Based upon the 2020/21 net budget this would equate to £12.1m. The Council will need to increase balances to this level during the MTFP period 2020/21 to 2022/23 and this will commence in 2020/21. As a result of this it is essential that each year a balanced outturn is delivered so that there is no requirement to call on this balance.

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 2019	**Estimated March 2020**
	£m	**£m**
Earmarked Reserves		
- Strategic Reserves	18.146	15.337
- Committed Reserves	12.500	10.500
- Uncommitted Reserves	0.000	0.000
- Restricted Reserves	1.483	1.286
- Temporary Reserves	7.846	4.823
	39.975	**31.946**
School Earmarked Reserves	-0.230	-0.230
Total Earmarked Reserves	**39.745**	**31.716**
Temporary Use of Earmarked Reserves to Fund Pension Deficit Repayment	-10.154	0.000
Total Earmarked Reserves per Statement of Accounts	**29.591**	**31.716**

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

3.22 Of the 47 existing earmarked reserves (excluding unutilised grants and contributions), 19 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 2020/21 and future years assumes that £1.5m will be used from the Transforming Sefton reserve in order to fund the cost of change budget and £2.0m will be required to fund the potential costs of exit packages. However, the budget does not assume that any reserves will be used to support service expenditure.

3.24 It is important that the Council continues to monitor these reserves throughout the year and when required establishes reserves for specific activities or releases funding that is no longer required to be held. This needs to reflect the diverse nature of activity that the Council is engaged in, including commercial activity.

3.25 Within this budget £0.750m has been identified to support the cost of school closures. The financial position of secondary schools within Sefton, due to the lack of funding made available from central government and number of pupils, has seen an anticipation that four out of six will be in a deficit position in 2020/21. This presents a real financial risk to the Council in that in the event of closure or a move to academy status the Council would need to meet the cost of any deficit held at that point in time. In order to protect its position, the Council needs to approve a licensed deficit that must be applied for by the school. Officers have worked extensively with these schools over the last six months and have advised that licensed deficits will only be approved where a school can demonstrate it will set a balanced budget within 12 months and can then repay substantial elements of any deficit thereafter.

3.26 Similarly, the Council currently has a deficit within its High Needs Budget. This is estimated to be £4.5m at the end of 2019/20. As this is a budget funded by the Dedicated Schools Grant, this deficit will be held as an earmarked reserve. The Council is awaiting guidance from CIPFA and the DfE on how this balance should be treated, however the Council will have to submit a recovery/action plan to DfE by June 2020 outlining how a sustainable budget will be set and how this deficit will be repaid within 3 years. A new allocation system is currently being developed for introduction from April 2020 and this will be based on meeting both of these requirements. Again, this will require robust management and financial control across the council to reduce the current financial risk to the Council.

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 2018/19 was **£2.134m**.

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 2018/19 was **£13.929m**. This funding will be utilised in future years. However, additional grants and contributions will be received that won't be fully utilised in the years they are received so will remain in the Reserve until utilised.

School Reserves

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

4. CONCLUSION

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