

APPENDIX 5

CHIEF FINANCIAL OFFICER STATEMENT (ROBUSTNESS OF ESTIMATES)

SUMMARY

Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (the Section 151 Officer) is required to report on the robustness of the estimates made for the purposes of the Council's Budget calculations and the adequacy of the General Fund balances and reserves. Section 25 also requires Members to have regard to this report in making their decisions.

BACKGROUND

Local Authorities decide every year how much they are going to raise from Council Tax. Decisions are based on a budget that sets out estimates of what the Council plans to spend on each of its services in the forthcoming year. The decision on the level of the Council Tax is taken before the financial year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:

- a. Making prudent allowance in the estimates for each of the services; and
- b. Ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.

This Statement is intended to give Members assurance that the Budget has been based on the best available information and reasonable assumptions. In order to meet the robustness requirement a number of key processes have been in place, including:

- Existing and future expenditure pressures are identified by reference to financial monitoring reports for the current year;
- The Section 151 Officer provided advice throughout the process;
- Ownership by the Cabinet Portfolio Holder and Senior Leadership Team of proposed savings and their achievability;
- Identification of financial risks;
- Revenue and capital expenditure is differentiated along with appropriate sources of funding, including revenue implications of capital expenditure;
- Consultation with the Members, public and groups as required;
- Accountable Managers identifying issues, projecting demand and considering value for money and efficiency;
- Ongoing development, and refinement, of data and information to monitor service volume and unit costs and track changes in both.

RELEVANT RISKS

A formal Risk Review of the Revenue Budget is undertaken to reflect local circumstances and from this it is proposed that Balances be set at a level appropriate to the identified risks.

The Council needs to have good financial resilience at a time of increasing financial pressures and in difficult economic times. The holding of sufficient funds is to support resilience. The

local and risk-based approach to the level of General Fund balance is in line with achievement of the objectives of this approach.

Risks in relation to the Revenue Budget and Capital Programme flow in part from the assumptions identified and will be kept under review as part of the Financial Monitoring Reports to Cabinet throughout the 2020/21 financial year.

ROBUSTNESS OF THE REVENUE ESTIMATES

The 2020/21 budget built on the process followed in preparing the 2019/20 budget, including a process to identify, review and assess both growth and savings proposals. Portfolio Holders and Senior Officers both worked on the development, challenge and scrutiny of financial proposals. This saw the production of proposals which were subject to public consultation and review by Elected Members.

The Cabinet agreed proposals in December 2019 to assist in the production of a balanced Revenue Budget for 2020/21. This exercise is formally concluded with the setting of Council Tax levels for 2020/21. In assessing the robustness of Revenue Budgets the key risks remaining are:

- The actual delivery of the approved savings and efficiencies;
- The impact of increasing demand for services, particularly care services;
- The confirmation of Government grants, of which a number remain unknown;
- Changes to the Capital Programme and associated revenue costs;
- The generation of capital receipts from the sale of land and buildings;
- The possibility of legal challenge including judicial review;
- On-going review of the risks relating to Council Tax and Business Rates collection levels and appeals.

These assumptions and changing circumstances require forecasts to be regularly reviewed. This includes the identification of options for consultation and to more detailed budgets being prepared for the next financial year, and the medium term, during the autumn.

The Council continues to face a challenging future while needing to achieve the Wirral Plan 2025. If proposals are delayed or not delivered in a way that produces the benefits anticipated there will be a need to make up the shortfall from other additional reductions elsewhere.

Changes to the business rate system

The Council is participating in a no detriment pilot of 100% retention of business rates across the Liverpool City Region. The Government is currently consulting on the operation of the retention system from 2020. It is currently therefore difficult to evaluate what the changes will mean for the Council as the full details of how the full operation of Local Government Funding, including the ending of Revenue Support Grant equivalent and the transfer of new responsibilities to local authorities will operate. Further details, such as updating the relative needs formulae (determining how resources are initially distributed between councils) and the impact of business rate appeals, have yet to be finalised. In order to mitigate the financial risks associated with the implementation of savings and to improve the robustness of the estimates, a Revenue Budget Contingency is to be maintained.

ROBUSTNESS OF THE CAPITAL PROGRAMME

The agreed Capital Programme includes projects costed at current year prices with many subject to a subsequent tender process which can lead to variances in the final costs. In some areas, the design brief may not yet be finalised, again giving rise to potential price variance. This is a known risk and can be managed through phasing or reduction in specification.

In assessing the robustness of the Capital Programme the risk of being unable to fund variations outside of the Programme is minimal mainly due to the phasing of projects. If necessary, the Council can choose to freeze parts of the Programme throughout the year to ensure spend is kept within the agreed budget. The main risks of the Capital Programme are:

- The ability to deliver the Programme within the agreed timescales. The re-profiling and slippage from previous years is fully funded but increases the pressure to deliver the anticipated 2021/22 Programme; and
- The future Programme includes new starts based on the availability of resources. There are a number of asset disposals planned and in today's climate, the eventual capital receipts may be higher or potentially lower than currently expected. The Programme includes transformational activity funded from capital receipts placing increasing reliance upon timely delivery of receipts. Any failure to complete expected asset disposals during 2020/21 will have consequences on the availability of revenue funding.

ADEQUACY OF THE GENERAL FUND BALANCES AND RESERVES

The recommended approach to determining the level of General Fund balances and reserves follows the guidance issued by Grant Thornton (the Council's External Auditor) and CIPFA (the professional organisation responsible for the Accounting Code). The Level of General Fund Balances for 2020/21 is referred to in the main report.

RESOURCE IMPLICATIONS

The budget proposal for 2020/21 represents a balanced position – in line with the Medium Term Financial Strategy and Council Budget 2020/21 report to Cabinet on 23 December 2019.

Confirmed increases in funding for 2020/21 have since been reflected in the latest budget proposal but the increase in funding is not being applied to new initiatives. Instead, this additional funding is being utilised to offset the risk of savings plans not being delivered or pressures being higher than currently expected. This approach is a means of improving the financial resilience of the Council, by reducing the significant financial risks that continue to be faced.

The projected budget gap for each of the following years to 2024/25 remains at between £27m and £29m per year, based on assumptions that Revenue Support Grant equivalents and Public Health grants do not continue. This approach is expected to present a worst case scenario – pending the final outcome of the Fair Funding Review - but the scale of the potential issues in setting a balanced budget for 2021/22 cannot be underestimated. Options to address shortfalls of this magnitude need to continue to be examined, with timely decisions taken on the appropriate course of action to address potential future shortfalls.