APPENDIX 10 - CHIEF FINANCIAL OFFICER STATEMENT

SUMMARY

Under Section 25 of the Local Government Act 2003, the Authority's Chief Financial Officer (presently the Director of Resources as 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

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 relevant Policy and Services Committee's 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 Service 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 locally and risk based approach to the level of General Fund balance is in line with the achievement 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 the Policy and Service Committees and Policy and Resources Committee throughout the 2021/22 financial year.

For 2021/22, additional risks are presented as a result of the Coronavirus. During 2020/21 the Council has had to adapt to a significantly different way of operating, not only in prioritising and providing additional support to vulnerable residents, providing support for the administration of grants and other payments to businesses and residents and for employees adapting to working from home and other forms of agile working.

The budget set a full Council in March 2020 has not been spent in the way that it was originally intended in some cases. Facilities being closed and staff being redeployed into other functions has meant that the full income anticipated for the year and the full range of savings proposals agreed have not been achieved.

For 2021/22, the longer term of the Coronavirus is as yet unknown. The estimates for income and pressures included within the 2021/22 budget are the best that can be provided at this current time. The main areas where additional expenditure is likely to occur in year that is as yet unquantified, is within Social Care and the 2021/22 increase in the Social Care Grant of £3.34m has been held in reserve to service as a mitigation to any future impact.

Income forecasts for facilities re-opening following the relaxing of lockdown are uncertain. It cannot be predicted how much income will be generated during 2021/22 as the date for full reopening of services has not been provided, and it anticipated that facilities will only be allowed to open on a phased basis with a potential for some to not be allowed to open at all due to the inability for social distancing. In addition, public confidence may remain low for some time to come and although allowed to reopen, the levels of demand for income generating services may well still be lower than normal.

Allowing for the extension of the Government’s Sales, Fees and Charges compensation scheme, an estimate has been made for income that will not be received during 2021/22. This is based on an assumption for a 40% reduction in the main income generating services such as Leisure and Culture. This will be monitored in-year and any variation will be reported and managed though the Policy and Services Committees

ROBUSTNESS OF THE REVENUE ESTIMATES

The 2021/22 budget is built on a transitional process as a result of the change of governance from the Cabinet system to the Committee System. Ordinarily, the

Policy and Services Committees would review the previous years budget and identify changes for the forthcoming year, including a process to identify, review and assess both growth and savings proposals. However, as the Committee system did not commence until October 2020, Officers have taken the lead in submitting this information to Committees, including the identification of savings proposals for 2021/22 in order to present a balanced budget.

In assessing the robustness of Revenue Budgets the key risks remaining are:

- The delivery of the approved savings and efficiencies;
- The impact of increasing demand for services, particularly care services;
- The impact of Covid-19 on the longer term which as yet in 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 and monitored. This monitoring will take place through the Policy and Services Committees during 2021/22.

FUTURE MANAGEMENT AND MONITORING OF BUDGETS

In light of the national Covid-19 it is expected that the Council will continue to face a challenging future while needing to achieve the outcome of the 2025 Wirral Plan. 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.

The Council is participating in a no detriment business rates pilot of 100% retention across the Liverpool City Region. The Government is currently considering the operation of the business rates retention system from 2022. It is currently therefore difficult to evaluate what the future changes will mean for the Council.

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 lead to variance in the final cost. 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
- The future Programme includes new starts based on the availability of resources. The programme includes asset disposal and in current economic the capital receipts may be higher or lower than expected.

ADEQUACY OF THE GENERAL FUND BALANCES AND RESERVES

Reserves and balances are sums set aside to meet possible future costs where there is no certainty about whether or not the costs will actually be incurred.

When reviewing the Medium Term Financial Plan and preparing the Annual Budget, local authorities should consider the establishment and maintenance of balances and reserves. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general fund reserve
- A contingency to cushion the impact of unexpected events or emergencies – this forms part of the general fund reserve
- A means of building up funds, referred to as earmarked reserves to meet known or predicted requirements. Earmarked reserves are accounted for separately but remain legally part of the general fund

Reserves are not to be used to avoid decisions not being taken to recommend a balanced budget to full Council but can be used as a smoothing mechanism where robust plans can be evidenced that permanent alternative arrangements are in place for the following year.

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 2021/21 is referred to in the main report and stands at £10.7m, which represents 3.25% of the 2021/22 budget. A more robust percentage of general fund balances is 5% or £16.5m.

In their letter to the Chief Executive in 2020, Grant Thornton stated that 'In my view, it is not prudent for Council's to use non-recurrent money to fund recurrent expenditure' and that 'I do not consider that reducing the general fund reserve would be appropriate and this would leave the Council exposed should a financial crisis occur.

In their independent financial review report, the Local Government Association noted that in 2018/19, 'Wirral has consistently fewer reserves compared to the average English metropolitan council and these have steadily declined in recent years. Furthermore, unallocated general fund (working) balances at 3% (of net revenue spend 2018/19) are the second lowest of all metropolitan councils' The LGA also stated Given the increased use of one off resources in recent years, it is prudent for stated ‘Given the increased use of on-off resources in recent years, it is prudent for the CFO to consider increasing reserves particularly general fund (working) balances’

OVERALL CONCLUSION

In overall view is that the 2021/22 budget is sound response to continuing challenging financial circumstances, which maintains services as far as possible, maximises efficiencies and responds to future financial challenges.

My advice to Members is to take steps to increase the General Fund Balance to 5% of the net Revenue Budget to ensure a reduce risk to the Council’s future financial sustainability.