



Report to Council

Date:	23rd February 2022
Title:	Chief Finance Officer's Statutory Report
Relevant councillor(s):	All Councillors
Author and/or contact officer:	Richard Ambrose, S151 Officer
Ward(s) affected:	All
Recommendations:	Council is asked to note the content of this report

1. Purpose of Report

- 1.1 Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:
- a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
 - b) the adequacy of the proposed financial reserves.
- 1.2 This report is the culmination of the budget process in which detailed work has taken place with Officers and Members. The Council is required to have due regard to this report when making decisions on the budget.

2. Strategic Overview

- 2.1 Buckinghamshire Council is now nearing the end of its second year of operation as a Unitary authority. Last year, the decision was taken to set a revenue budget for one year only, due to the level of uncertainty that existed at the time around future government funding and the difficulty in forecasting the longer-term effects of the Covid-19 pandemic. This was necessary to ensure that decisions were not taken based on assumptions that could not be reliably validated.

- 2.2 Although there continues to be uncertainty beyond 2022/23, this year a three-year budgeting process has been undertaken, in line with the timeframes of the government's Spending Review announced in October 2021. This medium-term financial planning process ensures that the annual budget for 2022/23 is developed within the context of longer-term sustainability. This enables us to consider risks and issues over a longer time period and develop prudent estimates in order to understand the extent of the budgeting challenge ahead. In addition, the multi-year process allows for the development of longer-term savings proposals, to ensure that the full benefits of becoming a Unitary Council can be realised.
- 2.3 Although the Autumn Spending Review set out the government's priorities for the 3-year period 2022/23 to 2024/25, the Local Government Finance Settlement was again only a one-year deal. There is still significant uncertainty around future funding levels with a consultation on funding reform expected later this year. This is likely to also be impacted by the 'Levelling-Up' agenda, in which funding may be reallocated away from authorities in the South-East.
- 2.4 The Covid-19 pandemic continues to affect the council in terms of additional demands on our services to support residents, and the impact of new behaviour patterns on our income streams. As we begin to recover from the pandemic, assumptions have been built into the budget for 2022/23 based on the latest estimates of income, and these are, therefore, subject to an element of risk.
- 2.5 Social Care budgets are particularly subject to a high degree of risk. This has been exacerbated by the effects of the pandemic and the NHS strategy of Discharge to Assess which is resulting in clients leaving hospital with greater care needs than before. In addition, changes in the cost of care and reform of social care funding expected in the near future will have an effect on our budgets and maintaining our adaptability to these changing factors whilst continuing to deliver high quality services will be of paramount importance.

3. The Control Environment

- 3.1 The Council operates within a framework of strong financial governance. The constitution is a top level governance document, approved by the Full Council, and this contains the Financial Procedure Rules which set the principles for managing the council's financial affairs. A set of strategic documents form the second level of financial governance, with a third tier represented by detailed Financial Instructions to provide clear guidance on the operation of key financial processes. All documents are regularly reviewed and updated to ensure they remain current and fit for purpose, reflecting changes in the external environment and also in the council itself.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a resilience index annually, which allows Local Authorities to assess their financial resilience

against a number of measures. These include the adequacy of reserves, funding risk, and exposure to Social Care demand risk. The data has been reviewed and the Council falls into the lower half of the risk assessment for all measures. This gives assurance that the Council's financial governance is strong and that it is operating in a financially sustainable way. The index can be used to look for trends going forward, but for the newly formed Buckinghamshire Council there is no historic data. Nevertheless, the index shows a low level of risk currently and our own internal measures of trend confirm a positive trajectory.

- 3.3 In its first year of operation, the council delivered a small budget underspend of £0.4m. This was a significant achievement given the challenges of coming together as a newly formed organisation whilst responding to the Covid-19 pandemic.
- 3.4 The forecast outturn for 2021/22 is again expected to be a small surplus as a percentage of the budget. Although there have been pressures within budgets during the year, these have been successfully managed and mitigated through the Council's strategy of approving contingency budgets for high risk budget areas. This prudent approach will be maintained in future to provide a mechanism for mitigating against risks. Pressures in the budget for 2021/22 have been assessed to establish whether they are ongoing or of a one-off nature, and ongoing pressures have been built into the forward budget as appropriate to ensure the right level of resource going forward.

4. Robustness of the Budget

- 4.1 The Covid-19 pandemic continues to affect the council and this budget reflects the ongoing effects in terms of changes in working and shopping patterns which will affect our income streams, and pressures on our social care services from increased demand. During the budget setting process we have had to respond to new variants such as Omicron and adapt flexibly to a changing environment.
- 4.2 This Medium Term Financial Plan, and the changes made in response to developments over the last year, have undergone frequent and rigorous review by:
 - a) Myself, as the S151 Officer;
 - b) The Corporate Management Team;
 - c) The Cabinet;
 - d) Management teams from all Directorates;
 - e) Member Priority Groups (administration);
 - f) The Budget Scrutiny Task & Finish Group.
- 4.3 Furthermore, our current year budget monitoring and risk management processes have ensured that all ongoing pressures and risks are explicit, understood and considered within the budget development process.

- 4.4 Throughout the development of the budget, these groups have been made aware of the current and future risks both on service income and expenditure, local taxation receipts and the wider Local Government funding environment.
- 4.5 Key amongst the current and future risks are:
- a) The ongoing impact of Covid-19 on the local, national and global economy;
 - b) The impact of societal change on service demand and income;
 - c) The continued growth in demand and complexity of cases managed in Social Care services and also Home to School Transport;
 - d) The sustainability of providers within the Social Care market;
 - e) The impact of inflation and potential budget pressures in terms of staff pay and supply chain costs; for example, pressures are currently being experienced due to above inflation cost increases in residential care for children and young people with complex needs, and this is expected to continue into the new financial year.
 - f) The continued uncertainty in Local Government funding as a result of delays to the Fair Funding Review, Business Rates system review and reform of Adult Social Care funding.
- 4.6 It is in this context that the budget contains specific contingencies to ensure that the Council is adequately planning for and mitigating the impact of any such risks which may become real.
- 4.7 Setting a sustainable 3 year budget for the Council comes within the context of a challenging environment for local authorities, with some high profile cases of local authorities failing to operate sustainably. A number of councils have applied to central government for the use of capitalisation directives to use capital funding to meet revenue pressures. In addition, we have seen three councils having to issue section 114 notices, banning all non-essential spend after concerns that setting a balanced budget for the forthcoming year would not be possible.
- 4.8 Financial sustainability will be a critical consideration for the Council going forward and the financial strategy will need to ensure that the Council can deliver its core services sustainably whilst maintaining the adaptability required to respond to changing levels of resources. Fully delivering the savings / additional income included within the 2022/23 budget (£19.2m) will be key to achieving this.

5. Adequacy of Reserves

- 5.1 Alongside the development of the budget proposals there has been consideration of the level of reserves held by the Council and the likely balances going forward.

- 5.2 As the five legacy councils came together in 2020, five sets of reserves needed to be consolidated. This process has now been carried out; reserves have been combined where they served a common purpose and aligned to the Council's new structure. These reserves provide funding across multiple years for the delivery of specific projects and to mitigate risks. A reserves protocol has been developed to support greater oversight of reserves and to ensure that they are created, used and managed in a consistent fashion.
- 5.3 The opening position on General Fund reserves (unallocated) for financial year 2022/23 is forecast to be £47.1m. This balance represents 6.6% of the gross operating budget (excluding the Dedicated Schools Grant). Earmarked reserves are sufficient to cover all expected commitments against them, including approximately £10.4m for the cost of transformation as the new Council further develops its future operating model.
- 5.4 We remain committed to using reserves only for one-off purposes, as using them for ongoing costs does not reflect sustainable financial management. There is a planned use of £1.36m of General Fund reserves in 2023/24 as part of the medium term financial plan, but this will be reviewed as part of the budget process next year.
- 5.5 Appendix A sets out a summary of the Council's earmarked reserves together with a description of the intended use of the reserves.

6. The Dedicated Schools Grant (DSG)

- 6.1 The DSG is a ring-fenced specific grant that supports local authorities' Schools budgets. Since 2019/20 the Department for Education (DfE) has set the principle, via legislation, that the DSG is ring-fenced and any deficit is to be carried on the reserve and not met from a Local Authority's General Fund. There is, however, a risk that this arrangement may cease at the end of financial year 2022/23, which would require authorities to fund the deficit from their General Fund.
- 6.2 Should the deficit be more than 1% of the DSG allocation, the Local Authority is to formally set out recovery plans to bring DSG back into balance. The deficit for Buckinghamshire Council is projected to be £4.1m (0.8%) at the end of 2021/22. A DSG Spending Review Group has been established in order to develop and monitor recovery actions. This group is a sub-group of the Buckinghamshire Schools Forum.
- 6.3 The DSG funding allocation for 2022/23 includes an increase in funding of £12.7m for the high needs block to support increased demand and other pressures. Schools Forum has agreed to retain £3.4m of the increase to support proposals for initiatives to reduce future spend and to support the increasing deficit. This is a proactive measure to ensure the council can address the issues internally and work towards a sustainable position.

- 6.4 Demand for support for pupils with special educational needs and disabilities (SEND) is increasing nationally with approximately two thirds of local authorities building up DSG deficits. Local authorities with the highest levels of DSG deficit have been required to enter into agreements with the DfE to reform their High Needs Block and agree a programme of savings targets to eliminate their historic deficits and function sustainably in the future.
- 6.5 The Council's DSG Management Plan is focused on addressing key priorities to manage spend. Through the DSG Spending Review Group the plan will be produced and managed in partnership with schools. The DfE is expected to publish a national SEND review this year and this will inform priorities and actions going forwards.

7. Conclusion

- 7.1 Despite the prevailing risks and uncertainties identified within the budget papers, the process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness. The first two years of the newly formed authority have been challenging; however, we have managed to retain a prudent level of general fund reserves and have prioritised financial sustainability for the future. Whilst other some other authorities are struggling financially, we maintain our approach of recognising risks and setting suitable contingencies to guard against them.
- 7.2 The provision of contingency budgets enables broad-ranging risks and uncertainties to be managed as part of the Council's risk management arrangements.
- 7.3 The level of the Council's total reserves is sufficient to provide:
- a) a working balance to cushion the impact of further unexpected events or uneven cash flows (general reserves), and
 - b) the setting aside of funds to meet known or anticipated liabilities (earmarked reserves).
- 7.4 **Therefore, I consider that the budget proposals recommended by the Cabinet are robust and sustainable.**

Appendix A - Summary of the Council's Reserves

The Council holds a number of reserves earmarked for specified purposes. These are reviewed quarterly to ensure that appropriate levels are held. A commentary on each of the reserves is set out below.

Directorate / Reserve	Opening Balance 1/4/21 £000	Forecast Closing Balance 31/3/22 £000	Purpose of Reserve
Adults & Health	- 6,435	- 4,932	
Public Health	- 3,973	- 3,335	The Public Health reserve holds unused Public Health grant funding to be used in future years.
Transformation	- 1,462	- 968	The Transformation reserve is used to support the transformation of Adult Social Care Services
Reprocurement of Contracts	- 1,000	- 628	The Reprocurement of Contracts reserve is used to spread the costs of future re-procurement processes for block contracts
Children's Services	- 24,420	- 13,844	
Assessed & Supported Year in Employment Academy	- 1,239	- 569	The Assessed & Supported Year in Employment Academy enables the Council to grow and develop highly competent Social Workers for our front line Child Protection and Safeguarding Teams
DSG Carryforward	- 1,795	- 4,128	The DSG Carry-forward reserve relates to unused Dedicated Schools Grant (DSG); this is currently in deficit
School Improvement Monitoring & Brokerage	- 1,455	- 1,614	The School Improvement Monitoring & Brokerage reserve holds unused grant funding
Schools Revenue Balance	- 20,838	- 13,428	The Earmarked for Schools reserve contains the balances held by schools under delegated schemes and is ring-fenced. It is reducing as more schools become academies.
Troubled Families (including Payment by Results)	- 1,616	- 1,356	The Troubled Families reserve holds hold unused grant funding to ensure the best possible sustainable outcomes for families with multiple problems in Buckinghamshire, through the re-shaping of the services 'offer' across public, private and voluntary sectors
Children's Services - Other	- 1,067	- 1,004	Other reserves include a number of smaller reserves such as unused grant funding
Communities	- 24,602	- 24,615	
Adverse Weather	- 2,284	- 2,214	The Adverse Weather reserve is used in the event of unusually harsh weather particularly for salting the highway
Capital	- 1,591	- 1,591	Capital reserves for car parks and refuse vehicles
Country Parks	- 1,537	- 482	The Country Parks reserves are used to develop future income generation
Highways & Transportation Procurement	- 1,243	- 997	The Highways and Transportation Procurement reserve is required for specialised advise relating to reprocurement of the Highways contract
Repairs & Renewals	- 1,981	- 1,103	The Repairs and Renewals reserve comprise amounts set aside to fund future purchases related to leisure and cultural assets
Strategic Infrastructure Fund	- 1,467	- 972	The Strategic Infrastructure reserve is required for investment into continuous and development activity
Integrated Transport Project	- 562	- 264	The Integrated Transport Project reserve creates increased Client Team capacity for the reprocurement of the Highways & Technical Services contract
Waste	- 5,030	- 9,068	The Waste reserve is used to smooth the effect of volatility in third party income and selling electricity
Fleet Repairs and Renewals	- 877	- 1,066	The Fleet Repairs and Renewals reserve is comprises amounts set aside to fund future purchases
Crematorium	- 6,892	- 6,288	The Crematorium reserve will be used to support the Crematorium
Other Earmarked Reserves	- 1,139	- 571	The Other Earmarked reserves include a number of smaller reserves such as health licencing income
Deputy Chief Executive	- 35,586	- 16,916	
Elections	- 793	- 480	The Election Expenses reserve is used to fund the expenses of the full Council elections which occur every four years.
Unitary Transformation	- 16,039	- 10,358	The Unitary Transformation reserve funds the transformation costs of Unitary
Unitary Transition	- 5,485	- 3,275	The Unitary transition reserve funds the transition costs of Unitary
Contain Outbreak Management Fund	- 7,257	- 2,072	The Contain Outbreak Management Fund reserve holds COMF monies received in the previous financial year to fund continuing and emerging costs relating to the Covid 19 pandemic in future financial years.
Community Boards	- 3,400	-	Money previously set aside for Community Boards has now been earmarked for MTFP Savings
New Homes Bonus - Parishes	- 1,118	- 0	The New Homes Bonus - Committed reserve holds sums committed to parishes for schemes the Council agreed to fund under the Parish New Homes Bonus scheme.
Other Earmarked Reserves	- 1,494	- 730	The Other Earmarked reserves include a number of smaller reserves such as Brexit

Directorate / Reserve	Opening Balance 1/4/21 £000	Forecast Closing Balance 31/3/22 £000	Purpose of Reserve
Planning, Growth & Sustainability	- 22,427	- 20,810	
Asbestos Warranty	- 3,277	- 3,456	The Asbestos reserve is held to cover future liabilities relating to making good on Asbestos in legacy Wycombe housing stock, managed by Red Kite, and cover the cost of asbestos claims re VAHT stock transfer
Capital Repairs & Renewals	- 2,012	- 1,583	The Capital Repairs and Renewals reserve is the primary funding source for asset Repairs and Maintenance.
Climate Change	- 5,000	- 5,000	The Climate Change reserve is used to deliver Climate Change Strategy projects
Efficiency Fund & Salix	- 515	- 781	The Efficiency Fund & Salix reserve is called on to finance initial expenditure on projects that will lead to longer term savings. The repayment of Salix loans is recycled to fund further projects.
Investment Properties	- 1,482	- 1,766	The Investment properties reserve issued to help contribute to property voids and develop investment properties to retain their value
Local Plan	- 1,286	- 863	The Local Plan reserve comprises legacy reserves to fund the development of Local Plans
Strategic Development	- 5,639	- 4,365	The Strategic Development reserve is used to facilitate strategic development opportunities across the Council.
Economic Development	- 919	- 675	The Economic Development reserve is used to facilitate economic development opportunities across the Council.
One Public Estate	- 627	- 450	The Council is the lead authority for the One Public Estate partnership programme
HS2	- 419	- 549	The HS2 reserve is expected to fund increased activity relating to HS2
Other Earmarked Reserves	- 1,250	- 1,322	The Other Earmarked reserves include a number of smaller reserves such as Digitalisation of Planning Records and Historic Buildings
Resources	- 8,411	- 8,679	
Finance Systems	- 1,000	- 981	The Finance Systems reserve supports required developments to the finance system
Insurance	- 6,275	- 6,275	The Insurance reserve relates to the estimated liabilities in respect of insurance claims not yet notified.
Housing Benefit	- 354	- 354	The Housing Benefit reserve is used to manage the impact of changes to housing subsidy levels and mitigate the additional operational costs from the introduction of welfare reform (Universal Credits).
Other Earmarked Reserves	- 781	- 1,068	The Other Earmarked reserves include a number of smaller reserves such as Arcus Licence
Corporate Reserves	- 113,774	- 80,184	
Capital	- 27,931	- 28,496	The Capital reserves are used for the financing of capital expenditure and receives appropriations from the revenue account. The balances largely represent slippage from prior year capital programmes.
Revenue Contribution to Capital Reserve	- 22,524	- 31,283	The Revenue Contribution to Capital reserves are used for the financing of capital expenditure and receives appropriations from the revenue account. The balances largely represent slippage from prior year capital programmes.
S106	- 4,379	- 4,379	The Section 106 reserves hold capital sums paid by developers by way of section 106 agreements.
Council Tax Deficit 20/21	- 6,112	- 5,587	This reserve holds funds to be used for the spreading of the Council Tax Deficit
Covid Corporate Pot	- 4,624	- 390	The Covid Corporate Pot contains top-slicing of Covid Grants
Special Expenses	- 842	- 692	The Special Expenses reserve holds funding relating to the two special expenses areas in Aylesbury and High Wycombe
Uncommitted Legacy Reserves	- 5,875	- 279	The Uncommitted Legacy reserve was created to provide the flexibility to address matters such as excess Covid-19 pressures and other legacy / transitional budget issues. It will be largely utilised with £5.7m used to create a new reserve to be used for profiling issues linked to the deliverability of existing MTFP savings
MTFP Approved Use of Earmarked Reserves	-	- 9,077	The MTFP Approved Use of Earmarked Reserve is newly created and will be used for profiling issues linked to the deliverability of existing MTFP savings
Collection Fund Stabilisation	- 41,487	- 0	The Collection Fund Stabilisation Reserve reflects the accounting requirements and cash flows of the Collection Fund, in respect of COVID grants and compensations managed through the Collection Fund in 2020/21 and will require repayment through the Collection Fund reconciliation process with Central Government.
Total Earmarked Reserves	- 235,656	- 169,979	