



Report to Council

Date:	21st February 2024
Reference number:	N/A
Title:	Chief Finance Officer's Statutory Report
Relevant councillor(s):	Cllr Martin Tett - Leader
Author and/or contact officer:	David Skinner, 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:
- the robustness of the estimates made for the purposes of the calculations [of the budget], and
 - 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 The revenue budget presented to Council is for the financial year 2024/25 to 2026/27. Whilst there remains significant volatility in the economic environment and uncertainties surrounding future Local Government funding we need to plan as robustly as possible for these future uncertainties. These plans will be reviewed in

future years Medium-Term planning cycles to ensure balanced budgets are prepared and that financial sustainability is maintained.

- 2.2 Local Government funding remains very uncertain in the medium term due to ongoing global and national economic pressures, proposed changes to the Local Government funding regime, potential reviews of Business Rates and Council Tax, and the implementation of key Government.
- 2.3 The Government's Autumn Statement published in November 2023 set out funding priorities for the period 2024/25 to 2028/29, with public spending rising in line with the 2% inflation target.
- 2.4 Actual funding allocations confirmed through the Final Local Government Finance Settlement in February 2024 provided certainty in funding for the Council for 2024/25 only. This is the fifth year in the last eight where local government has received single year settlements. The long-awaited changes to Local Authority funding through the Fair Funding Reforms are likely to significantly impact the distribution model for Government funding when the reforms are implemented, and as such future funding levels remain significantly uncertain.
- 2.5 The Settlement also confirmed that the Council Tax referendum thresholds for 2024/25 will be 3% for basic Council Tax and 2% for the Adult Social Care precept.
- 2.6 Developing the budget for financial year 2024/25 has been particularly challenging due to increased cost and demand pressures in key services such as Adult Social Care, Children's Services, Home to School Transport and Temporary Accommodation. This is particularly the case in Children's Social Care, where the market has become sub-optimal, and placement costs have been impacted by demand significantly outweighing supply. In Adult Social care budgets are particularly subject to a high degree of risk with clients continuing to leaving hospital and enter Social care with greater care needs than before, as well as continuing pressures on the health system as a whole.
- 2.7 Inflation continues to remain a factor, with the Consumer Prices Index slowly falling from a 41 year high of 11.2% in October 2023. Recent months have seen reductions, although this is proving to be very sensitive to the performance of specific categories within the 'basket of goods'. The trend in inflation is broadly consistent with the Office for Budget Responsibility forecasts which have been used to develop our budget plans.
- 2.8 The Final Local Government Finance Settlement included an increase in funding for Social Care through the Social Care grant, and an increase in the Minimum Funding Guarantee from 3% to 4%, however increasing demand and complexity of need continues to put pressure on our budgets. The reform of Adult Social Care, which had been expected in October 2023, continue to be delayed, and this will have an effect on our budgets in future. Maintaining our adaptability to these changing factors whilst continuing to deliver high quality services will be of paramount importance.

2.9 The budget for 2024/25 has been set within the context of a challenging environment for all local authorities, with continued high profile cases of local authorities failing to operate sustainably. A number of councils have applied to central government for the use of exceptional financial support including capitalisation directives to use capital funding to meet revenue pressures and a number have been allowed to increase Council Tax above normal referendum thresholds. In addition, we have seen a number of 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.

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 latest 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.

3.3 The forecast outturn for 2023/24 is currently an overspend due to key pressures in Adults and Children's Social Care, Home to School Transport and Temporary Accommodation. Actions plans have been developed in-year to address these pressures, and have successfully managed to bear down on the costs pressures, consequently the quarter 3 position shows an improved position. In addition there are still contingencies that could be applied. This positive improvement is a significant achievement, given the scale of pressures within budgets during the year, but these are being successfully managed and mitigated through the Action Plans and the Council's strategy of setting contingency budgets for high-risk areas. This prudent approach will be maintained in future to provide a mechanism for mitigating against risks. A balanced position was achieved in 2021/22 and 2022/23.

3.4 All pressures in the budget for 2023/24 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 assumptions used to build the budget have been formulated using the most up to date information available, and cross-checked and verified against external sources such as:

- a) Forecasts of inflation from the Bank of England Monetary Policy Unit's latest estimates and the Office for Budget Responsibility
- b) Sector averages for growth and inflation as measured by the Society for County Treasurers, to ensure our assumptions are consistent with comparable local authorities
- c) Detailed review of growth and inflation within service areas to understand how services will be impacted by inflation on their particular cost-drivers
- d) Local trend data on measures of demand and unit costs

4.2 The budget, and the changes made in response to developments over the last year, has 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 briefing sessions;
- 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) **Inflation and national economic conditions:** global economic instability, along with supply chain issues, have contributed to the current high levels of inflation in the UK economy. Although inflation is predicted to fall during

2024/25, there remains uncertainty over the levels and duration of these impacts.

- b) **Central Government funding:** the Covid-19 pandemic, support for the 'cost of living pressures' and the UK's response to the war in Ukraine have led to unprecedented levels of national debt. Under the fiscal rules introduced by the government, it will be necessary for public spending to be tightened in future years to reduce these levels, unless economic performance improves significantly. This is expected to result in Local Government funding, as an unprotected department, increasing at a significantly lower rate than in recent years. In addition, the long-awaited Local Government funding reform and impact of the Levelling Up agenda could see funding diverted away from areas that are perceived as less in need.
- c) **Geo-political tensions:** the current level of political tension across the globe continue to interrupt supply chains and the availability of some commodities, contributing to the recent peak in inflation. It is also creating additional burdens on nation states through increased costs in supporting friendly nations in conflicts and through support to those displaced by conflict. The uncertainty and global impact of these tensions and conflicts means that future inflation forecasts and costs of further support are potentially very unpredictable.
- d) **Complexity and demand in Social Care & Client Transport:** Social Care and Client Transport budgets remain subject to significant variations in terms of both demand and inflation. This is being exacerbated by the pressure on hospitals to discharge patients to free bed-space and the increased need of those leaving hospital. This is seeing clients leave hospital with higher needs than in normal times. Whilst all reasonable efforts have been made to predict these pressures based on information available estimates remain volatile and uncertain.
- e) **Increased demand for Temporary Accommodation:** demand for Temporary Accommodation has risen significantly due to an increase in the number of people presenting as homeless and a shortage of suitable accommodation. The Council is being pro-active in addressing this through the proposals contained within the budget to reduce reliance on bed and breakfast accommodation and establish a more sustainable operating model.
- f) **The sustainability of providers within the Social Care market and Care Reforms:** under the Care Act, local authorities with responsibility for adult social care have a statutory duty to manage the market including, where necessary, making provision for the continuity of care if social care providers close. Whilst the future for Adult Social Care reforms remains uncertain,

there has been a significant increase in fees paid to providers, however market sustainability continues to remain a concern.

- b) In Children's Social Care the national market has become sub-optimal, with demand significantly outpacing supply. This has contributed significantly to increasing placement costs in the current year. The Council is being proactive in addressing this through proposals contained within the budget to increase the supply of in-house Children's Homes.

- 4.6 It is in this context that the budget contains specific contingencies, set against a process of financial risk assessment, to ensure that the Council is adequately planning for and mitigating the impact of any such risks which may become real.
- 4.7 Financial sustainability will be a critical consideration for the Council going forward, especially with the number of Councils who are having to issue S114 Notices continuing to increase, 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 / Corporate reductions included within the 2024/25 budget (**£41.3m**) 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. These balances are held against the risk of unforeseen events and provide a strong buffer against unexpected events, as well as funding across multiple years for the delivery of specific projects. A reserves protocol is in place to support greater oversight of reserves and to ensure that they are created, used and managed in a consistent and prudent fashion.
- 5.2 A ratio of 5% of net revenue expenditure is the generally accepted minimum prudent level of General Fund reserves. The Council's General Fund reserve is forecast to be 7.9% of net operating expenditure budget for 2024/25 financial year. There are no planned uses of General Fund Reserves within the budget proposed. This measure forms part of the CIPFA Resilience Index and we are currently rated as low risk for this indicator. Given current risks and uncertainties, holding above 5% in General Fund reserves is considered prudent. Earmarked reserves have been closely reviewed and are sufficient to cover all expected commitments against them, whilst providing an additional mechanism for managing risks.
- 5.3 We remain committed to using reserves only for limited purposes. There is a planned use of £2.150m (in total over 3 years) from Earmarked Corporate Reserves to smooth savings plans. The planned use of reserves will be reviewed as part of the Medium Term Planning process and if possible alternative funding will be identified.

5.4 Appendix A sets out a summary of the Council's earmarked reserves together with forecasts for changes to these balances as a result of the 2024/25 budget proposals.

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. This policy, known as the statutory override for the DSG, has been extended for the three-year period from 2023/24 to 2025/26. There remains, however, a risk that this arrangement may cease at the end of financial year 2025/26, which would require authorities to fund the deficit from their General Fund.

6.2 Local authorities with significant deficits are required to :

- provide information as and when requested by the department about its plans for managing its DSG account in the 2024 to 2025 financial year and subsequently
- provide information as and when requested by the department about pressures and potential savings on its high needs budget
- meet with officials of the department as and when they request to discuss the authority's plans and financial situation
- keep the schools forum regularly updated about the authority's DSG account and plans for handling it, including high needs pressures and potential savings

6.3 A local authority with a DSG deficit from the previous year must either:

- carry the whole of the deficit forward to be dealt with in the schools budget for the new financial year
- carry part of it forward into the new financial year and the rest of it into the following financial year
- carry all of it into the following financial year
- apply to the Secretary of State under the regulations for authorisation to disregard the requirements in Schedule 2 relating to deficits if it wishes to fund any part of the deficit from a source other than the DSG.

6.4 These provisions will be repeated in future regulations so that part or all of the deficit can be carried forward further a year at a time, to be dealt with through DSG that will be received in future years.

6.5 The deficit for Buckinghamshire Council is projected to be £3.4m (1.03%) at the end of 2023/24 after taking into account the current in year forecast for high needs budgets and the pupil growth fund. 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.

- 6.6 The DSG funding allocation for 2024/25 includes an increase in funding of £3.5m for the high needs block to support increased demand and other pressures. Demand and costs are projected to continue to increase in 2024/25. In setting the high needs budget for 2024/25 the impact of mitigating actions from the DSG management plan have been included, in order to offset some of the additional demand and cost pressures for the year.
- 6.7 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 level of DSG deficit have been required to enter into Safety Valve 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 future. Buckinghamshire has just completed Tranche 3 of the Delivering Better Value in SEND programme launched by the DfE in June 2022, to enable them to work with authorities with smaller and/or rising deficits. An application for £1m has been submitted to the Delivering Better Value programme to support the DSG Management Plan, supporting the council in moving towards a sustainable position in its high needs budget.
- 6.8 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 reviewed and updated in partnership with schools.

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 currently financial landscape for local authorities remains challenging, however we have managed to retain a prudent level of general fund reserves and have prioritised financial sustainability for the future. Whilst 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. The reserves are categorised over five classifications and are summarised below:

Type of Reserve	Forecast Closing Balance 31 March 2024 £000s	Forecast Closing Balance 31 March 2025 £000s	Forecast Closing Balance 31 March 2026 £000s	Forecast Closing Balance 31 March 2027 £000s
Earmarked for Capital purposes	58,220	47,768	43,082	30,842
Earmarked for Future Policy Purposes	33,426	26,889	22,949	22,371
Ring-fenced funding	30,985	28,980	27,480	25,980
Managing specific risks and cyclical	40,925	34,064	35,016	35,183
Held on behalf of others	235	235	235	235
Total - Earmarked Reserves	163,792	137,936	128,763	114,611

Earmarked for Capital Purposes:

This includes the Revenue Contribution to Capital reserves, S106 monies and developer contributions (where conditions have been met), monies set aside for capital feasibility and repairs and renewals.

Managing Specific Risks and Cyclical Costs:

This category includes reserves which facilitate the smoothing of expenditure over a number of years. It includes Mitigating Future Financial Risks, Budget Smoothing, Collection Fund, Insurance, Adverse Weather and Elections.

Earmarked for Future Policy Purposes:

This category includes reserves held to support future priorities. It includes monies set aside for service improvement, re-procurements and local plans.

Ring-Fenced Funding:

This includes unused grant funding such as the Public Health grant, One Public Estate and the schools' year-end balances. It also includes the Dedicated Schools Grant which is in deficit. Special Expenses reserve balances are held within this category.

Held on Behalf of Others:

This comprises monies held on behalf of the South East Strategic Leaders and museum donations.