



## Chief Finance Officer's Statutory Report 2016/17 – 2019/20

18 February 2015

### Report of the Chief Finance Officer

#### Introduction

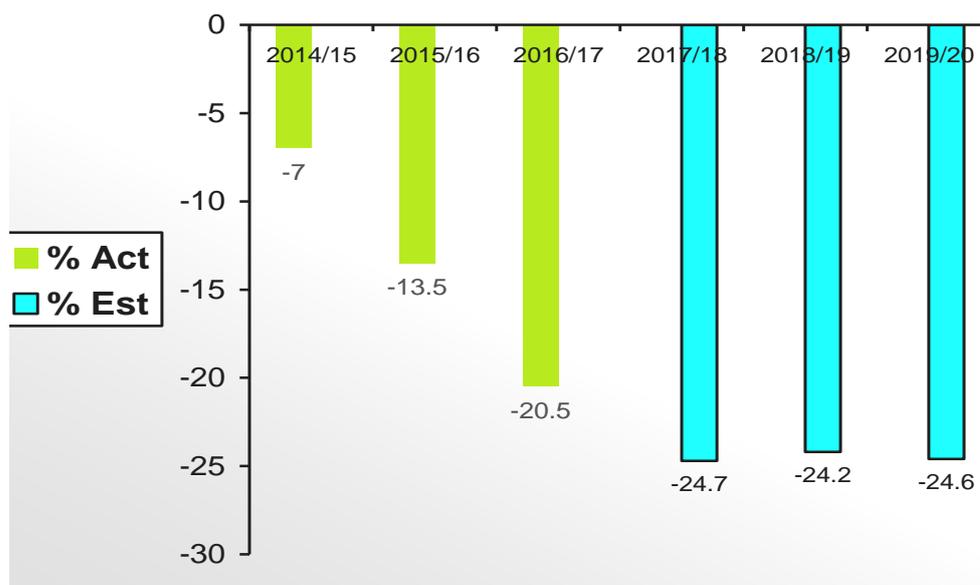
1. Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:
  - (a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
  - (b) the adequacy of the proposed financial reserves.

This report is the culmination of the budget process in which detailed work has already taken place with Service Managers, the One Council Board, Business Unit Leadership Teams and Councillors. The Council is required to have due regard to this report when making decisions on the budget.

#### Strategic Overview

2. Although the wider economic picture is showing some faltering signs of recovery the outlook for local authority budgets remains bleak. The Chancellor's Autumn Statement set out a continued emphasis on national deficit reduction to the end of the Parliament, which he is seeking to do predominantly through reducing public expenditure. The local government finance settlement is a clear manifestation of this.
3. The chart overleaf shows the percentage decrease in the funding settlement for the last few years on a like for like basis, despite steadily increasing demands on services mainly due to demographic changes. The funding reductions for 2016/17 to 2019/20 have now been provisionally announced. However, future year reductions could change depending upon the state of the economy.

## Percentage change in funding settlement



4. The Government have adopted a new approach to the funding of local authorities focussing on 'Spending Power', or the overall resources available to an authority. As a result they feel able to reduce the Revenue Support Grant to Buckinghamshire by a larger degree than had been anticipated due to the resources the Council can generate for itself though Council Tax from a relatively large tax base.
5. The new funding system has allowed councils to keep a proportion of business rates and thus a proportion of any growth or decline in business rates. The Government keeps 50%, with 40% retained by districts. Buckinghamshire County Council retains 9% and the fire authority 1%. The level of outstanding appeals continues to create some uncertainty, but this is decreasing allowing increased confidence over future forecasts. This in turn has allowed the County Council, along with some districts and the Fire & Rescue Service, to form a Rates Pool facilitating the retention of a greater proportion of rates growth.
6. The Business Rates system is aimed at incentivising councils to support growth. Similarly, the New Homes Bonus incentivises house building but, as with Business Rates Retention, the larger proportion (80%) goes to districts with only 20% coming to the County Council despite it being responsible for the major part of infrastructure development which supports growth. The New Homes Bonus is being reduced from 2018/19 onwards in order to allow the Government to focus more resources towards the integration of health and social care.
7. To some extent the Government have recognised the increasing pressures building in social care. Local authorities with social care responsibilities have been given the ability to raise Council Tax by an additional 2% from April 2016, known as the 'Social Care Precept'. In addition, the Government have introduced the Improved Better Care Fund to facilitate integration between social care and health services, which comes direct to local authorities rather than via the Clinical Commissioning Groups, as with the original Better Care Fund. However, for Buckinghamshire, as with the reduction in Revenue Support Grant, the

Government are off-setting the Improved Better Care Fund allocations by the additional resources an authority can generate for itself through the Social Care Precept. As a result Buckinghamshire gains very little from the Improved Better Care Fund and, when taking into account the reductions in New Homes Bonus, actually receives a negative settlement.

8. With financial support from Central Government falling, the Council increasingly has to look at other means of generating resources. In part this can be done through increasing the Council Tax, but the Council is also looking to generate other income sources. One such strategy is to consider purchasing commercial property for a return and exploring the income generating potential of surplus assets rather than defaulting to disposal. Increasing trading activity is another potential source, but this itself generates its own risks of delivery. As the Council looks to expand its commercial approach and income becomes a bigger proportion of funding, these risks may increase. Similarly the investments that the Council makes in order to generate more income also carry inherent risk that they will not all bring about the desired return.
9. The Government have taken advantage of the economic growth in an area to reflect this in anticipated increases in the tax base. However, the cost pressures on councils arising from that growth are less well recognised. Clearly there is some acknowledgement in respect of pressures in social care but the impact on other services, such as having more roads to maintain, more energy needed for street lights, more concerns raised with Trading Standards, etc. are largely ignored.

#### **Dedicated Schools Grant**

10. Schools funding is provided for through the Dedicated Schools Grant (DSG) rather than general grant. The purpose of the schools budget is defined in legislation with the categories of expenditure being defined in regulations.
11. From April 2015 Buckinghamshire schools have benefited from an additional £18m as part of the “fairer funding” arrangements implemented by Government. The Government have now been clearer about their intentions for a national funding formula (from 2017/18) as well as a move for a far greater number of schools to be academies or Free Schools. This is likely to mean a reduced role for local authorities accompanied by reduced funding.
12. Approval of final DSG grant allocations for 2016/17 will be made by the Cabinet Member for Education & Skills together with the Schools Forum, following advice from Council officers.

#### **Control Environment**

13. An unqualified opinion on the 2014/15 financial statements was achieved as in previous years. However, the conclusion on the Council’s arrangements for securing value for money in 2014/15 was again qualified due to the result of the Ofsted inspection of Children’s Social Care, although improvements in this respect were acknowledged. The Council continues working on its improvement plan, which if successful will see such qualification removed in future years.

14. All Officers and Members are required to work within an embedded framework of governance and management arrangements and structures. Financial management itself takes place within a broader governance code that includes the responsibilities of the Chief Finance Officer as part of a framework for ensuring effective decision-making, risk management and operations. Under the Council's Future Shape Programme a number of changes to the Governance Framework were introduced from April 2015. The Council's Constitution, including the Financial Regulations and Contract Standing Orders has been updated as well as the introduction of an Operating Framework.
15. All budget managers operate within a cash limit framework and the Council's overall track record for budget management has been very good. Historically, there has been no history of significant Council overspends at the year end and in most years overall budgets have come in below cash limits (see later chart). This year, however, due to continuing pressures in both children's and adult social care, the Council has had to implement a moratorium on non-essential expenditure.
16. The control framework has been strengthened over the year. As part of the Future Shape transformation programme the Council has put in place an assurance framework and as part of this identified professional leads for each of the key control areas.
17. The Council's risk management approach has been further developed to ensure that it is more integrated with performance management, project management and financial planning with emerging risks and issues being escalated on a timely basis. A revised Assurance & Risk Strategy was approved in July 2015. The Risk Management Group continues to operate under the direction of the Regulatory and Audit Committee and is responsible for monitoring the effectiveness of the management of risks across the Council. The One Council Board has reviewed all strategic risks. These include:-
  - increased financial pressures as a result of further funding cuts and increasing demand for services;
  - major contract and/or market failure;
  - governance failure, particularly in a changing environment.
18. I have carried out a review and taken actions to improve the system of assurance that supports me in discharging my statutory role of S151 Officer to ensure the Council has effective stewardship over the financial management across the Council. The Council has appointed a Finance Director to each Business Unit who has responsibility for financial management and stewardship within their respective Business Unit. I have regular meetings with the Business Unit Finance Directors to ensure those roles are being properly discharged.

### **Robustness of the Budget**

19. The formulation of the 2016/17 budget (and indicative budgets for the following three years) has been carried out in conjunction with a review of the Strategic Plan and Business Unit Plans. It has allowed for best estimates of inflation and unavoidable growth pressures as well as the expenditure reductions required to live within the reduced financial envelope. As part of the process an early 'scene

setting' and financial modelling phase has been implemented and additional Member briefings were held at each stage of the process.

20. There has been scrutiny of proposed budgets and savings by:

- The Finance Team
- The One Council Board
- Member Portfolio Teams - Administration
- Cabinet Members
- The Budget Scrutiny Committee
- Bucks Business Group

21. These examinations of the budget have led to a number of refinements, although feedback from consultation has largely been supportive of the budget proposals, which provides assurance about the robustness of the estimates. Scrutiny of the budget around revenue reductions has also been considered from an equalities and risk perspective.

22. There are some council budgets where service levels are unpredictable and where a degree of judgement has to be applied to estimate the level of risk to the budget. To mitigate these high risks, contingency budgets of approximately £6m have been put in place in 2016/17. These provide a safety-net for certain demand led budgets, as well as some provision for corporate risks such as the national living wage and the risks of not fully delivering on all savings proposals.

23. Given the reductions in government grant levels, the growing unavoidable expenditure pressures and the scale of reductions required, the budget will inevitably contain a degree of risk. The key risks include: -

- (a) **Achievability of Reductions** – the Council has a good track record of successfully delivering significant efficiency savings and service reductions. Further budget reductions have been included within the Medium Term Plan (£51m over the next 4 years). This includes some ambitious proposals to radically change the way services are delivered. It will also require greater integration of services with partners, particularly health, to deliver more efficient public services beyond the boundary of the Council itself. Continuing to achieve this level of further savings, whilst maintaining service levels with reduced management capacity, is likely to become harder and harder for services. These will need to be carefully managed;
- (b) **Global Economic Turbulence** – Although the reductions in local government are already severe there is some risk that global issues such as Chinese economic slow-down, volatility in the Eurozone, or the oil price may cause the Chancellors growth forecasts to be disrupted. In these circumstances the Government may decide to impose further cuts in funding on local government;
- (c) **Demand Led Budgets** – client numbers and levels of need for statutory services are notoriously difficult to control. Buckinghamshire has an increasing number of residents with a rising elderly population and an increasing birth rate, particularly in some of the more deprived wards. The Council has struggled to contain the number of 'looked after children' and those with child protection plans and, furthermore, there is a potential

shortage in available and suitable placements which can result in higher placement costs. Although best efforts have been made to accurately forecast budget requirements and contain escalating demand through preventative measures, there will always be a degree of uncertainty. Some contingency budget has been included for those most volatile service areas;

- (d) **National Living Wage** – The Council has made provision for the National Living Wage which will mainly fall directly on our social care providers on the basis that these contracts will absorb a proportion of those costs. However, with at least part of the care market under financial strain already there is some risk that the costs falling on the Council will be larger than allowed for.
- (e) **Managing Public Expectations** – The additional flexibilities that the Government has provided in terms of the Social Care Precept, along with a radical shift of emphasis away from suppressing Council Tax increases, has meant that local tax increases are much larger than recently experienced at the same time as cuts to services are more severe. This could stimulate some public resistance to the change programme that the Council needs to implement in order to live within it means;
- (f) **Changes in Legislation/Responsibilities** – The Government are proposing a number of changes to the remit of local authorities. It has stated that it intends to increase responsibilities for local government as part of the move to full business rates retention. By contrast it is seeking to shift an increasing number of schools toward academy or free status. There is inevitably a risk that the changes in responsibility are not matched by appropriate changes in funding;
- (g) **Ofsted Improvement Plan** – Considerable additional resources have had to be found in the previous and current financial year to respond to the need to deliver an improvement plan following the adverse Ofsted inspection of Children’s Services. Future budget proposals also include a step up in funding in this service area. One of the biggest challenges in delivering the improvement plan is the recruitment and retention of more social workers, both to meet increasing demand and to replace more expensive agency staff. A package of measures was included in the budget last year to help achieve this, but there is a national shortage of social workers and it has proved difficult to make significant headway. Many other authorities are taking similar action, which places Buckinghamshire’s own plans at some risk;
- (h) **Capital** – The Council has a history of considerable slippage on the delivery of its capital programme. During 2015/16 the Asset Strategy Board, supported by the Capital Programme Manager, has used the new gateway process to strengthen governance in this area. Nonetheless, in the current climate construction costs are starting to rise which could drive costs up if projects continue to slip. There are also risks in respect of the delivery of school places and early year’s provision, which is going to require us to actively seek sponsors and engage with the Private, Voluntary and Independent sector to ensure an adequate supply of places.

## **Capital**

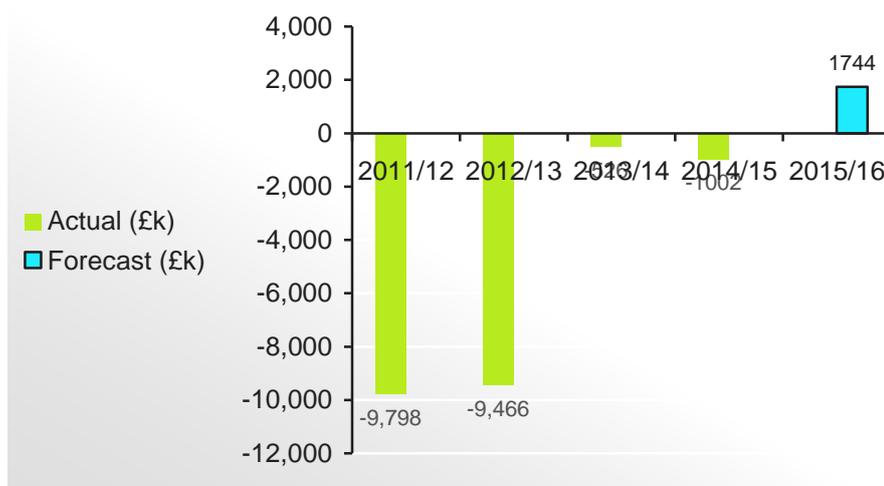
24. The four year capital programme has been developed following an assessment and prioritisation of aspirations against key Council priorities. With reduced resources available the Council has had to scale back its investment in infrastructure projects. 2016/17 should see the final delivery of the Energy from Waste plant, which will bring significant revenue benefits. The Council has managed to find the resources to continue its road improvement programme for 2016/17 but, thereafter, resources are reduced although should at least permit sustain the status quo. Although the Council continues to commit significant resources to its school build programme it remains unclear whether this will be sufficient to deal with rate of growth in the school population. It has not been possible to find any additional resources to make further investment in Early Year provision, so this will need to be delivered in partnership with private, independent and voluntary organisations.
25. The capital programme is funded from a variety of sources including grants, capital receipts and prudential borrowing. There are risks around the sale of assets predominantly due to market conditions and planning approvals. There is also increasing complexity as the Council works in partnership with other bodies to develop projects, such as the LEP on infrastructure projects, districts on town centre regeneration and national bodies on East-West Rail.
26. The capital programme includes a relatively small contingency budget in each of the three years. This provides some flexibility to respond to emerging issues and uncertainties that may arise.

## **Adequacy of Reserves**

27. As well as a contingency budget, to enable those more uncertain budgets to be managed, general reserves (non-schools) are also held to meet unforeseen spending requirements and to provide stability in Medium Term Financial Planning. The level of reserves should take into account the strategic, operational and financial risks facing the authority and, as such, a review of the level of reserves has been undertaken as part of the budget formulation.
28. In the last few years reserves have fallen faster than previously planned in order to fund a number of the time limited initiatives being carried out as part of the Children's Services improvement plan as well as in-year increases in demand pressures. Funding of some improvement initiatives will continue for the next few years.
29. A further consideration in setting a prudent level of balances and setting a safe budget is the underlying trend of under/over spending against the budget set at the beginning of the year (see below). Overall the proposed budget does not assume any further use of general reserves as the forecast level at the end of 2015/16 is now deemed to be at the minimum level required (£16m, equating to 5.0% of the net budget requirement).

## Revenue outturn position

(note: 2015/16 is a forecast outturn)



30. Schools general reserves are ring-fenced to schools. These are expected to total approximately £12.0m as at 31 March 2016.
31. The Council holds other earmarked balances (see Appendix A for summary). The earmarked reserves are forecast to total £107.7m as at 31 March 2016. However, this includes £50m set aside to bring down the future cost of borrowing requirements for the Energy from Waste project, which will be used early in 2016/17. Some of these reserves can only be used for specific purposes, but others could be called upon, if necessary, and so provide additional flexibility.

### Conclusion

32. The process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
33. The provision of a contingency budget enables those areas where there might be additional pressures to be managed as part of the Council's risk management arrangements.
34. The level of the Council's total reserves is sufficient to provide:
- a working balance to cushion the impact of unexpected events or uneven cash flows (general reserves), and
  - the setting aside of funds to meet known or anticipated liabilities (earmarked reserves).
35. Therefore, I consider that the budget proposals recommended by the Cabinet are robust and sustainable.

### Recommendation

**Council is asked to NOTE the Chief Finance Officer's Report.**

**RICHARD AMBROSE  
DIRECTOR OF ASSURANCE (& CHIEF FINANCE OFFICER)**

## Appendix A

### Summary of Council's Reserves

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

		<b>Opening Balance 01.04.2015</b>	<b>Estimated Balance 31.03.2016</b>	<b>Estimated Balance 31.03.2017</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Earmarked Reserves</b>			
A	Capital	(33,564)	(17,500)	(12,000)
B	Doubtful Debt	(1,049)	(2,000)	(2,000)
C	Priority Spend	(1,069)	(786)	(500)
D	Learning Skills Council (LSC)	(578)	(500)	0
E	Efficiency Fund & Salix	(1,760)	(2,000)	(1,500)
F	Commuted Sums	(600)	(600)	(600)
G	Renewals	(2,454)	(2,435)	(2,400)
H	Insurance	(5,512)	(5,000)	(4,000)
I	Election Expenses	(297)	(441)	(585)
J	Transformation	(1,816)	(681)	0
K	Social Care	(2,301)	0	0
L	Waste	(46,608)	(50,131)	0
M	Revenue Grants Unapplied	(6,673)	(6,355)	(5,000)
N	Public Health	(5,867)	(3,553)	(1,000)
O	DSG Carry-forward	(4,122)	(1,782)	(1,500)
P	Strategic Asset Development	(2,456)	(2,000)	(1,500)
Q	Broadband Expansion	(3,858)	(3,858)	0
R	East-West Rail	(1,000)	(2,000)	(3,000)
S	Other Earmarked Reserves	(11,363)	(6,084)	(5,000)
	<b>Total Earmarked Reserves</b>	<b>(132,947)</b>	<b>(107,706)</b>	<b>(40,585)</b>
T	<b>Earmarked for Schools</b>	<b>(16,572)</b>	<b>(12,000)</b>	<b>(12,000)</b>
U	<b>Non-Earmarked Reserves</b>	<b>(21,044)</b>	<b>(16,000)</b>	<b>(16,100)</b>
	<b>Total Reserves</b>	<b>(170,563)</b>	<b>(135,706)</b>	<b>(68,685)</b>

- A The Capital reserves are used for the financing of capital expenditure. The balances largely represent slippage from prior year capital programmes.
- B The Doubtful Debt reserve relates to amounts that the Council is setting aside to mitigate the risk of bad debts.
- C The Priority Spend reserve is to help address Council budget priorities.
- D The Learning Skills Council (LSC) reserve is used as a mechanism for equalising under- and over-spends on the adult learning budgets. These budgets are monitored on an academic year basis rather than on a financial year basis.
- E The Efficiency Fund & Salix reserve is called on by Portfolios to finance initial expenditure on projects that will lead to longer term savings. The repayment of Salix loans is recycled to fund further projects.
- F The Commuted Sums reserve is made up of payments from private developers to compensate the Council for additional costs incurred in maintaining infrastructure associated with new developments.
- G The Renewals reserve is used for the financing of capital expenditure. The balance represents amounts set aside to fund future purchases, particularly vehicles and computers.
- H The Insurance reserve relates to the estimated liabilities in respect of insurance claims not yet notified.
- I The Election Expenses reserve is used to fund the expenses of the full Council elections which occur every four years.
- J The Transformation reserve is used to fund upfront work required to achieve future savings resulting from the Council's service transformation activities.
- K The Social Care reserve supports a range of projects that have social care and health benefits. It is anticipated that the reserve will be fully utilised in 2015/16.
- L The Waste reserve has been established to smooth the financial impact of the Energy from Waste project to reduce future borrowing requirements in 2016/17.
- M The Revenue Grants Unapplied reserve has been established to set aside unringfenced, unused revenue grants to be used in future years. Local Economic Partnership (LEP) funding is held within this reserve.
- N The Public Health reserve holds unused ring-fenced Public Health grant funding to be used in future years.
- O The DSG Carry-forward reserve relates to unused Dedicated Schools Grant (DSG).

- P The Strategic Asset Development reserve has been established to facilitate investment in new and existing assets in order to generate future income streams.
- Q The Broadband Expansion reserve has been set up to finance the extension of broadband coverage locally beyond the commercial commitment.
- R The East-West Rail reserve has been established to set aside funding to provide better links to Milton Keynes, Reading, Oxford and Bedford as well as London.
- S The Other Earmarked Reserves include:
- Support Services Options Appraisal
  - Ofsted Improvement Plan
  - Special Educational Needs and Disability reforms
  - Country Parks
  - Adverse Weather
- T 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.
- U The Non-Earmarked reserve (General Fund) is kept at a prudent level to cover unforeseen eventualities and liabilities.