County Council

16 February 2017

Chief Finance Officer's Statutory Report 2017/18 – 2020/21

Introduction
Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:

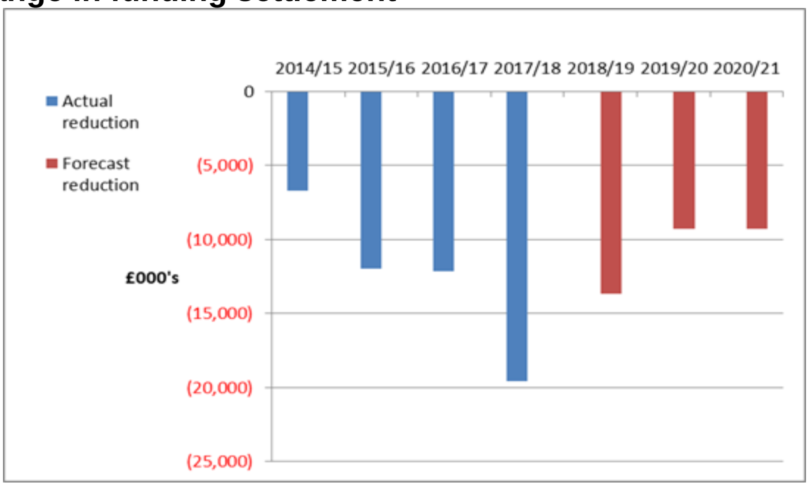
(a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
(b) the adequacy of the proposed financial reserves.

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
Although the wider economic picture has been relatively stable recently the outlook for local authority budgets continues to be challenging. The Chancellor's Autumn Statement, whilst recognising that the national deficit will not be removed within the lifetime of the current Parliament, continued to reduce central funding for public expenditure. The local government finance settlement is a clear manifestation of this.

The chart below shows the 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 2017/18 to 2019/20 have now been announced. In the 2016/17 Local Government Settlement the offer of a 4 year settlement to 2019-20 was made. Buckinghamshire County Council accepted this offer and as a result there is an expectation that these future years will not change materially.

Change in funding settlement



The Government continues to follow the approach to the funding of local authorities focussing on 'Spending Power', or the overall resources available to an authority. As a result the finance settlement continues to reduce the Revenue Support Grant to Buckinghamshire by a larger degree than for other authorities due to the resources the Council can generate for itself though Council Tax, due to its relatively large tax base.

The current funding system has allowed councils to keep 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 authority to form a Rates Pool facilitating the retention of a greater proportion of rates growth.

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, which was initially paid for 6 years after a new home was built, is being reduced to 5 years from 2017/18, and to 4 years from 2018-19 onwards in order to allow the Government to focus more resources towards the integration of health and social care. The change in 2018-19 was already known.

The Government announced that the changes to the New Homes Bonus in 2017-18 would allow for a one-off grant to be paid to all authorities providing Adults Social Care. Buckinghamshire County Council benefits from this change by £1.157m.

To some extent the Government has recognised the increasing pressures building within social care. Local authorities with social care responsibilities had been given the ability to raise Council Tax by an additional 2% from April 2016, known as the 'Social Care Precept'. This 'precept' had been capped at 2% per annum. However, a new flexibility was recently announced which allowed the 'precept' to be raised by up to 3% as long as the total increase over the next 3-years does not exceed 6%. This flexibility allows the Council to receive the 'precept' income earlier than previously planned, supporting an increased pace of change, without changing the final Council Tax receipts figures for 2019-20.

With financial support from Central Government falling, the Council increasingly has to look at other means of generating resources and managing and responding to demand. 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 being pursued is 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 although it needs to be recognised that there are risks associated with the Council looking to expand its commercial approach and as income becomes a bigger proportion of funding.

The Government has taken advantage of the economic growth in an area to reflect this in the anticipated increases in the council tax base. However, the cost pressures on councils arising from that growth are less well recognised. For example, increasing social care pressures (between 2015 and 2020 Buckinghamshire's population is expected to increase by 26%), increases in the number of school places required and having more roads to maintain.

Education funding

Education funding has been provided for through the ringfenced Dedicated Schools Grant (DSG) and the unringfenced Education Service Grant (ESG). The purpose of the schools budget is defined in legislation with the categories of expenditure being defined in regulations.

From September 2017 this funding regime will change, with the removal of ESG and some elements transferring into DSG as part of a national funding formula. This will mean a reduced role for local authorities, especially in relation to school improvement. Officers have worked hard to minimise the impact of these cuts in terms of service outcomes.

Approval of final DSG grant allocations for 2017/18 will be made by the Cabinet Member for Education & Skills together with the Schools Forum, following advice from Council officers.

Control Environment

An unqualified opinion on the 2015/16 financial statements was achieved as in previous years. However, the conclusion on the Council's arrangements for securing value for money in 2015/16 was again qualified due to the result of the Ofsted inspection of Children's Social Care, although some progress was acknowledged. The Council continues to dedicate resources and direct attention on our improvement plan which, if successful, should see such qualification removed in future years.

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. The Council's Constitution, including the Financial Regulations and Contract Standing Orders were updated as well as the introduction of an Operating Framework. These key documents are kept under review and updated as required.

All budget managers operate within a cash limit framework and the Council's overall track record for budget management has ensured that we have sought to deliver services within the total resources available to the Council. Historically, there has been no history of significant Council overspends at the year end and in most years overall budgets have operated within cash limits (see later chart). This year the Council is forecasting to underspend against the budget despite managing pressures within Social Care and Education-related services.

The control framework is further supported by an assurance framework and as part of this professional leads for each of the key control areas are identified and accountable for reporting on the operation of the control environment in their designated areas.

The Council's risk management approach continues to be enhanced 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. For example, risk registers are regularly reviewed at Project Board meetings and financial risks are discussed on a monthly basis. 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 reviews all strategic risks on a quarterly basis. 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.

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

The formulation of the 2017/18 budget (and indicative budgets for the following three years) has been carried out in conjunction with a renewal of the Strategic Plan and development of Commercial 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.

There has been scrutiny of proposed budgets and savings by:

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

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.

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 £4.5m have been put in place in 2017/18. These provide a safety-net for specific demand led budgets. In addition some contingency has been provided for corporate risks such as the national living wage, the cost of major change programmes and the risks of not fully delivering on all savings proposals.

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 (£46m 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, as will the income generation targets included within the budget;

(b) ***Global Economic Turbulence*** – Although the reductions in local government are already severe there is some risk that global issues such as economic slow-down, the impact of the Brexit negotiations, 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 a growing elderly population (especially 85+) and growing numbers of people with disabilities, which have increasingly complex needs. Furthermore, we have an increasing birth rate, particularly in some of the more deprived wards and a high number of statemented children. The Council has struggled to contain the number of children 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 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 its means;

(f) ***Changes in Legislation/Responsibilities*** – The Government 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) ***Capital*** – During 2016/17 the Asset Strategy Board has used the new gateway process to strengthen governance in this area. As a result slippage has been greatly reduced and risks of escalations in costs have been mitigated to an extent. Nonetheless, in the current climate construction costs are starting to rise which could drive costs up if projects do slip. There are also risks in respect of the delivery of school places (including early years), which is going to require us to actively seek the best solutions to the growing demand for places.

Capital

The four year capital programme has been developed following an assessment and prioritisation of aspirations against key Council priorities. 2016/17 has seen the final delivery of the Energy from Waste plant, which is delivering significant revenue benefits. The Council has managed to find the resources to continue its road improvement programme for 2017/18 and 2018/19 but, thereafter, resources are reduced although should at least 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 and relies on significant developer contributions.

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.

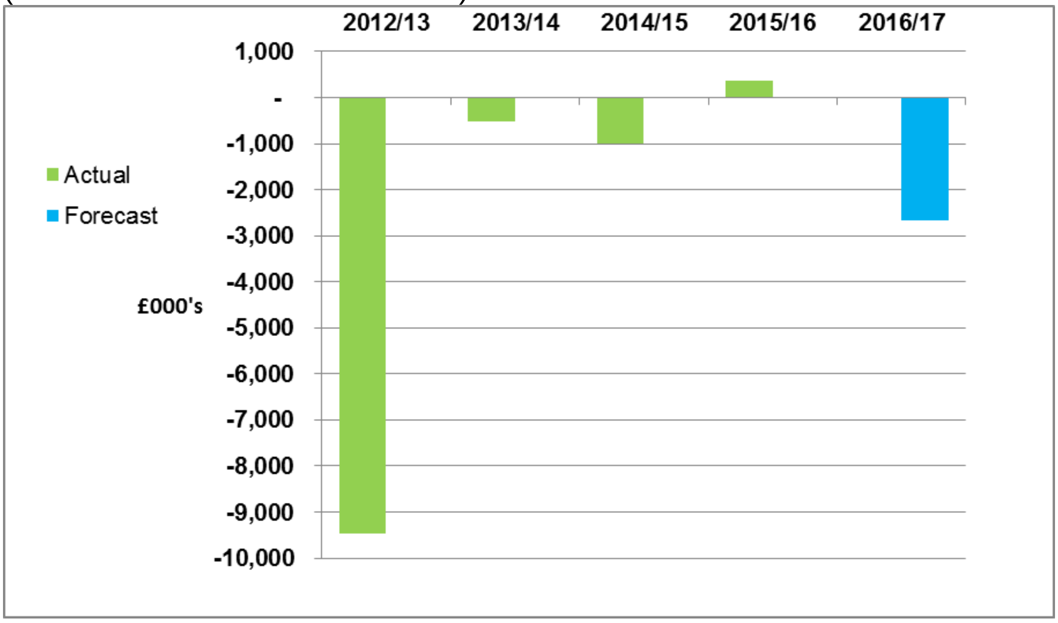
The capital programme includes a relatively small contingency budget in each of the four years. This provides some flexibility to respond to emerging issues and uncertainties that may arise.

Adequacy of Reserves
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.

In the last few years general 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.

A further consideration in setting a prudent level of balances and setting an acceptable budget is the underlying trend of under/over spending against the approved budget (see below). Overall the proposed budget does not assume any further use of general fund reserves. Due to an overall underspend being forecast in 2016/17 the level of general fund reserves is likely to be approximately £21m at the end of this financial year (equating to 6.5% of the net budget requirement).

Revenue outturn position
(note: 2016/17 is a forecast outturn)



Schools general reserves are ring-fenced to schools. These are expected to total approximately £14.9m as at 31 March 2017.

The Council holds other earmarked balances (see Appendix A for summary). The earmarked reserves are forecast to total £91.6m as at 31 March 2017. Some of these reserves can only be used for specific purposes but others could be called upon, if necessary, and so provide some additional flexibility.

Conclusion

The process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness.

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.

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).

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.

		Opening Balance 01.04.2016 **£000**	**Estimated Balance 31.03.2017** **£000**	**Estimated Balance 31.03.2018** **£000**
	Earmarked Reserves			
i	Capital	(38,486)	(28,869)	(20,786)
ii	Bad Debt Provision	(1,049)	(500)	0
iii	Priority Spend	(854)	(646)	(514)
iv	Learning Skills Council (LSC)	(651)	(651)	(651)
v	Efficiency Fund & Salix	(1,310)	(794)	(794)
vi	Commuted Sums	(593)	(593)	(593)
vii	Renewals	(2,342)	(1,881)	(1,516)
viii	Insurance	(6,755)	(6,755)	(6,755)
ix	Election Expenses	(421)	(545)	(124)
x	Transformation	(1,988)	(720)	0
xi	Social Care	(482)	(14)	0
xii	Waste	(21,614)	0	0
xiii	Local Economic Partnership	(6,668)	(3,534)	(3,444)
xiv	Revenue Grants Unapplied	(740)	(737)	(737)
xv	Public Health	(3,585)	(1,172)	(359)
xvi	DSG Carry-forward	(460)	(290)	(290)
xvii	Strategic Asset Development	(1,975)	(2,027)	(1,500)
xviii	Adverse Weather	(1,633)	(1,633)	(1,633)
xix	Other Earmarked Reserves	(5,846)	(3,995)	(2,869)
	Total Earmarked Reserves	**(97,452)**	**(55,356)**	**(42,565)**
xx	**Earmarked for Schools**	**(19,202)**	**(14,895)**	**(14,942)**
xxi	**Non-Earmarked Reserves**	**(17,446)**	**(21,313)**	**(21,313)**
	Total Reserves	**(134,100)**	**(91,564)**	**(78,821)**

i. The Capital reserves are used for the financing of capital expenditure and receive appropriations from the revenue account. The balances largely represent the profiling of spend over the next 4-years.

ii. The Bad Debt Provision relates to amounts that the Council is setting aside to mitigate the risk of bad debts.

iii. The Priority Spend reserve is to help address Council budget priorities.

iv. The Learning Skills Council (LSC) reserve is used as a mechanism for equalising under- and overspends on the adult learning budgets. These budgets are monitored on an academic year basis rather than on a financial year basis.

v. 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.

vi. 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.

vii. 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.

viii. The Insurance reserve relates to the estimated liabilities in respect of insurance claims not yet notified.

ix. The Election Expenses reserve is used to fund the expenses of the full Council elections which occur every four years.

x. The Transformation reserve is used to fund upfront work required to achieve future savings resulting from the Council's service transformation activities.

xi. The Social Care reserve supports a range of projects that have social care and health benefits.

xii. The Waste reserve was established to smooth the financial impact of the Energy from Waste project and to reduce borrowing requirements.

xiii. The Local Economic Partnership reserve has been established to set aside LEP funding to be used in future years.

xiv. The Revenue Grants Unapplied reserve has been established to set aside other unringfenced, unused revenue grants to be used in future years (e.g. Families First).

xv. The Public Health reserve holds unused Public Health grant funding to be used in future years (e.g. Active Bucks).

xvi. The DSG Carry-forward reserve relates to unused Dedicated Schools Grant (DSG).

xvii. The Strategic Asset Development reserve has been established to facilitate investment in new and existing assets in order to generate future income streams / reduce running costs.

xviii. The Adverse Weather reserve is used in the event of unusually harsh weather particularly for salting the highway.

xix. The Other Earmarked Reserves include:

a. Special Educational Needs and Disability Reforms
b. Country Parks (to become self-financing)
c. Youth Offending

xx. 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.

xxi. The Non-Earmarked reserve (General Fund) is kept at a prudent level to cover unforeseen eventualities and liabilities.