



Chief Finance Officer's Statutory Report 2018/19 – 2021/22

22 February 2018

Introduction

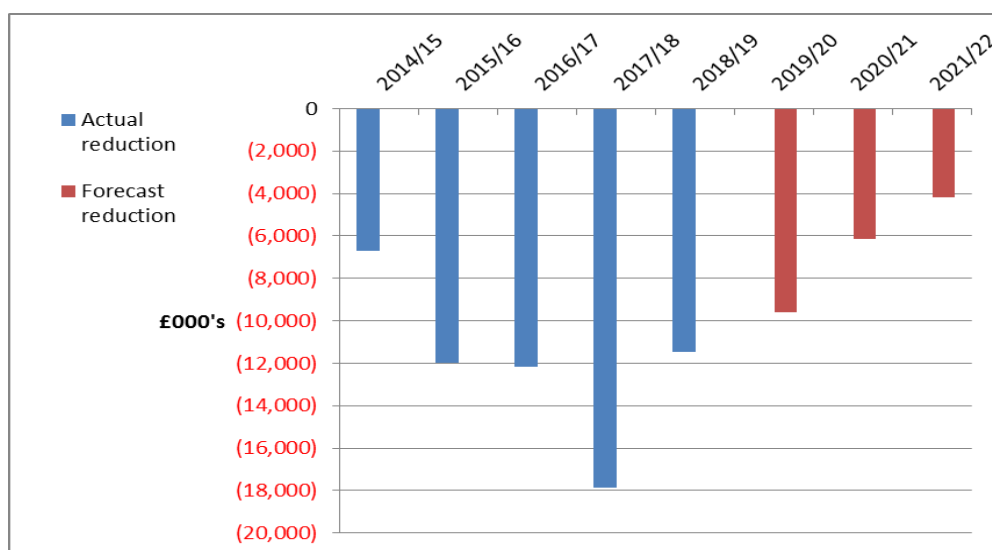
1. Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:
 - (a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
 - (b) the adequacy of the proposed financial reserves.

This report is the culmination of the budget process in which detailed work has already taken place with Service Managers, the Corporate Management Team, 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 has been relatively stable recently the outlook for local authority budgets continues to be challenging. Recent analysis from the LGA highlighted that Council's will face a funding gap of £5bn by 2020 (with adult social care and children's services being particularly acute), as well as a £1.3bn pressure to stabilise the adult social care provider market immediately. The Chancellor's Autumn Budget, whilst recognising that the national deficit will not be removed within the lifetime of the current Parliament, continued to keep to the previously announced funding settlement.
3. The chart below shows the decrease in the funding settlement for the last few years on a like for like basis, despite increasing demands on services mainly due to demographic changes. 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 the funding reductions will not change materially over this period.

Change in funding settlement



4. The Government continue 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. In 2018/19 Buckinghamshire becomes one of the first authorities to receive no Revenue Support Grant at all.
5. 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.
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, which was initially paid for 6 years after a new home was built, was reduced to 5 years in 2017/18, and is reducing 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.
7. To some extent the Government have recognised, at least in the short-term, 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 initially been capped at 2% per annum. However, in 2017/18 a new flexibility was announced which allowed the 'precept' to be raised by up to 3% as long as the total increase over the next 3-years did 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.

8. In addition it was announced in the Final Local Government Settlement that an additional £150m has been identified in 2018/19 to support pressures in Adult Social Care. This is to be distributed in accordance with the existing Relative Needs Formula, with the allocation for Buckinghamshire being £1.045m. This will be used to support the transformation of services within Adult Social Care.
9. 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 has also been looking to generate other income sources, including by reviewing fees & charges and expanding on our shared services. One other strategy that has been pursued over the last few years is the purchasing of commercial property for a return and exploring the income generating potential of surplus assets rather than defaulting to disposal.

Education funding

10. Education funding has primarily been provided for through the ringfenced Dedicated Schools Grant (DSG). The purpose of the schools budget is defined in legislation with the categories of expenditure being defined in regulations.
11. Approval of final DSG grant allocations for 2018/19 was made by the Cabinet Member for Education & Skills together with the Schools Forum, following advice from Council officers. Funding for Buckinghamshire schools increased by approximately £11m on a like for like basis, which is an increase of roughly 3%. In 2019/20 a further increase of approximately £10m in funding for schools has been announced, which will be passed on to Schools.

Control Environment

12. An unqualified opinion on the 2016/17 financial statements was achieved as in previous years. However, the conclusion on the Council's arrangements for securing value for money in 2016/17 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.
13. 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. There has been a particular emphasis on debt recovery over the past year and new governance and management structures have been embedded to ensure the improvements made are pervasive.
14. 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 have been no 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 slightly underspend against the overall approved budget despite managing pressures within both Adults and Children's Social Care services.

15. 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.
16. 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. 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 Corporate Management Team 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.
17. 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

18. The formulation of the 2018/19 budget (and indicative budgets for the following three years) has been carried out in conjunction with a review of the Strategic Plan and development of 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 Member briefings were held at each stage of the process.
19. There has been scrutiny of proposed budgets and savings by:
 - The Finance Team
 - Business Unit Leadership Teams
 - The Corporate Management Team

Member Portfolio Teams - Administration

Cabinet Members

The Budget Scrutiny Committee

Bucks Business Group

20. 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.
21. 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 service contingency budgets of approximately £5.6m have been put in place in 2018/19. 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.
22. 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 (£12.65m in 2018/19). 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 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 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. There is a potential shortage in available and suitable placements which can result in higher 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) **Care Market Sustainability** – The Council has recognised that there are pressures within the provider market for Care services, including the National Living Wage implications and has made some provision in recognition that there is a 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 increasing the Council Tax referendum limit and being able to change the profiling of the Adult Social Care Precept 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) **Investment Property Income** – Over recent years the council has invested in a portfolio of property assets in order to generate an income stream to help offset the loss of Government Funding and protect services from additional reductions. There is risk inherent in this strategy which is mitigated through the use of professional advisers, to support the identification and evaluation of potential purchase opportunities, and through our decision to set aside a proportion of the income received to address any periods where properties are vacant and rental income is not being received.
- (g) **Capital** – During 2017/18 the Asset Strategy Board has continued to use the gateway process to ensure strong governance in this area. As a result slippage has been reduced and the 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

- 23. The four year capital programme has been developed following an assessment and prioritisation of aspirations against key Council priorities. The Council has managed to find the resources to continue its road improvement programme for 2018/19 through to 2021/22. 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.
- 24. 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.

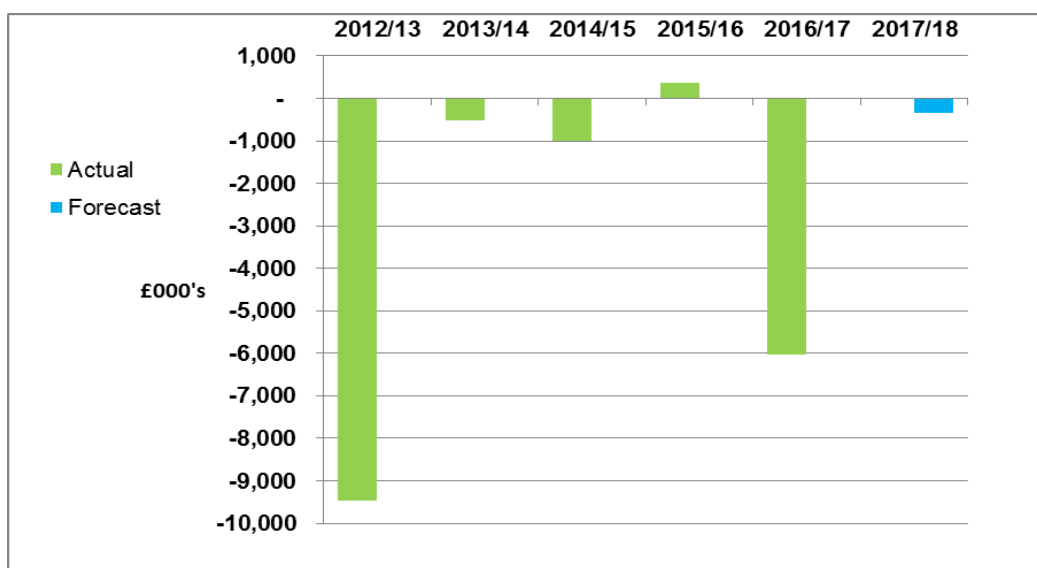
25. The capital programme includes a relatively small contingency budget in each of the four years. This provides some flexibility to respond to emerging issues and uncertainties that may arise.

Adequacy of Reserves

26. 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 increased slightly following previous reductions.
27. 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 a slight overall underspend being forecast in 2017/18 the level of general fund reserves is likely to be approximately £25m at the end of this financial year (equating to 7.4% of the net budget requirement).

Revenue outturn position

(note: 2017/18 is a forecast outturn)



28. Schools general reserves are ring-fenced to schools. These are expected to total approximately £10m as at 31 March 2018.

29. The Council holds other earmarked balances (see Appendix A for summary). The earmarked reserves are forecast to total £69.9m as at 31 March 2018. 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

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

31. 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.

32. 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).

33. 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 Finance & Assets (& Chief Finance Officer)

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 01/04/2017	Estimated Balance 31/03/2018	Estimated Balance 31/03/2019
	Earmarked Reserves			
i	Capital	- 46,147	- 38,249	- 34,741
ii	Doubtful Debt	- 870	-	-
iii	Priority Spend	- 576	- 368	- 150
iv	Learning Skills Council	- 651	-	-
v	Efficiency Fund & Salix	- 1,276	- 1,196	- 918
vi	Commuted Sums	- 593	- 571	- 571
vii	Renewals	- 2,249	- 1,608	- 1,126
viii	Insurance	- 5,600	- 3,821	- 3,821
ix	Election Expenses	- 545	- 152	- 276
x	Transformation	- 1,170	- 623	- 73
xi	Social Care	- 1,453	-	-
xii	Waste	- 3,330	- 4,492	- 3,927
xiii	Local Economic Partnership	- 5,466	- 5,404	- 5,042
xiv	Revenue Grants Unapplied	- 1,380	- 322	- 322
xv	Public Health	- 1,271	- 771	- 621
xvi	DSG Carry-forward	- 2,689	- 2,450	- 2,200
xvii	Strategic Asset Development	- 2,351	- 2,172	- 1,800
xviii	Adverse Weather	- 1,968	- 1,668	- 1,668
xix	Strategic Development	-	- 2,014	- 1,066
xx	Other Earmarked Reserves	- 5,056	- 3,990	- 2,584
	Total Earmarked Reserves	- 84,639	- 69,871	- 60,905
xxi	Earmarked for Schools	- 14,967	- 10,000	- 5,000
xxii	Non-Earmarked Reserves	- 24,569	- 25,025	- 25,025
	Total Reserves	- 124,176	- 104,896	- 90,930

- (i) The Capital reserves are used for the financing of capital expenditure and receive appropriations from the revenue account. The balances largely represent slippage from prior year capital programmes.
- (ii) The Doubtful Debt reserve relates to amounts that the Council had set 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 was used as a mechanism for equalising under- and overspends on the adult learning budgets and has now been wound-up.
- (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.
- (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 un-ring fenced, unused revenue grants to be used in future years.

- (xv) The Public Health reserve holds unused Public Health grant funding to be used in future years.
- (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.
- (xviii) The Adverse Weather reserve is used in the event of unusually harsh weather particularly for salting the highway.
- (xix) The Strategic Development reserve is a new reserve, created by combining a number of existing reserves into one pot, to be used to facilitate strategic development opportunities across the Council.
- (xx) The Other Earmarked Reserves include:-
- Ofsted Improvement Plan
 - Special Educational Needs and Disability Reforms
 - Country Parks
- (xxi) 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.
- (xxii) The Non-Earmarked reserve (General Fund) is kept at a prudent level to cover unforeseen eventualities and liabilities.