

County Council



CHIEF FINANCE OFFICER'S STATUTORY REPORT 2019/20 – 2022/23

Introduction

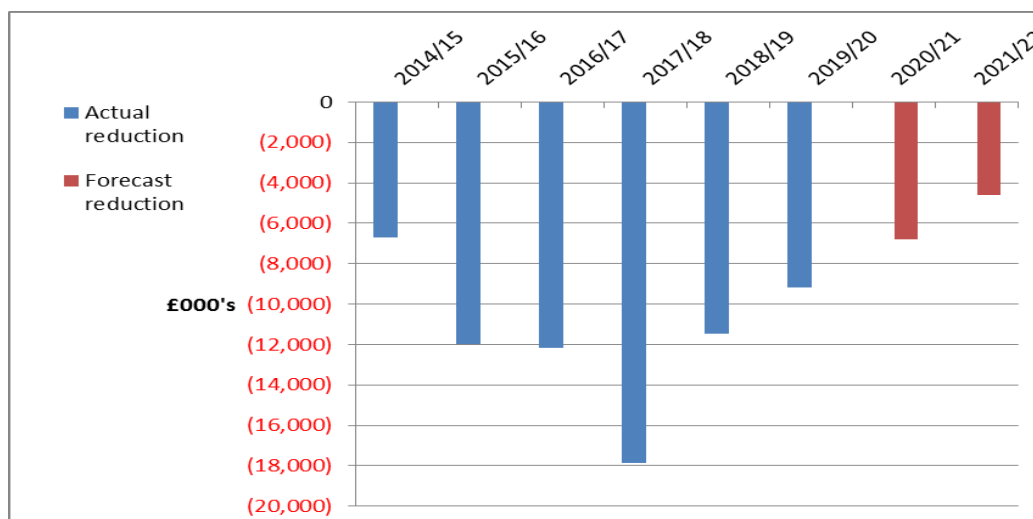
1. Under Section 25 of the Local Government Act 2003 I am required to report to the Council on:
 - (a) the robustness of the estimates made for the purposes of the calculations [of the budget], and
 - (b) the adequacy of the proposed financial reserves.

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. Following the Secretary of States announcement that proposals to create a single Unitary Council for Buckinghamshire, effective from April 2020, this budget will be the last one set for Buckinghamshire County Council. Given the timescales and challenges of creating the new Council every effort has been made to ensure that provision is made to support the transition and that the indicative Buckinghamshire County Council budgets for the period after the creation of the new Council give it every chance of success.
3. Although the wider economic picture has been relatively stable recently the outlook for local authority budgets continues to be challenging. 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.
4. 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 and the increasing complexity of the cases dealt with. In the 2016-17 Local Government Finance Settlement the offer of a 4 year settlement to 2019-20 was made. Buckinghamshire County Council accepted this offer, and the certainty which came with it has provided a stable backdrop for the past 3 years. There is now only one year remaining of the 4 year settlement, which leaves the council with little certainty of funding levels beyond 2020.

Change in Funding Settlement



5. 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 Revenue Support Grant to Buckinghamshire County Council was removed completely in 2018/19 due to its relatively large tax base. In 2018/19 Buckinghamshire became one of the first authorities to receive no Revenue Support Grant at all.
6. The current funding system has allowed councils to keep a proportion of any growth or decline in business rates. 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.
7. In 2019-20 Buckinghamshire County Council will be a pilot authority of 75% Business Rates Retention following a joint bid with the districts. This is for 2019-20 only and allows a greater share of growth to be retained locally. In 2020-21 this model will be rolled-out across England and the learning from the pilots will inform the final design of the new system.
8. 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, will continue to be paid for 4 years, having been reduced over the last 2 years.
9. 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 'Adult

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 was used in 2017-18 and 2018-19 so there is no increase in this 'precept' in 2019-20.

10. In addition it was announced in the recent Autumn Budget that an additional £650m had been identified in 2019/20 to support pressures across Adults and Children's Social Care. Of this £240m is to support Adults Social Care and reduce pressures on the NHS and £410m is to address the continued pressures across Adults and Children's Social Care budgets. The allocations for Buckinghamshire being £1.671m and £2.855m respectively. These will be used to support Adults Social Care budgets and to create a general Social Care contingency budget in order to address demand, complexity and demographic pressures.
11. 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. One such 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. We continue to explore such opportunities and apply rigorous due diligence, including using external professional advisors, before taking any such decisions.

Education Funding

12. 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.
13. Approval of final DSG grant allocations for 2019/20 will be made by the Cabinet Member for Education & Skills together with the Schools Forum in February 2019, following advice from Council Officers. Funding for Buckinghamshire Schools increased by approximately £14m on a like for like basis, which is an increase of 3.3%.

Control Environment

14. An unqualified opinion on the 2017-18 financial statements was achieved as in previous years. However, the conclusion on the Council's arrangements for securing value for money in 2017-18 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.
15. As part of our ongoing commitment to enhance the control environment we have been delivering a Financial Management Improvement Plan during 2018/19. Following significant engagement and consultation with our Business Unit colleagues a new Service Offer has been launched, based on further enhancements to our current Business Partnering model of service delivery. In support of this a clear and concise Financial

Accountabilities framework has been produced and received commitment from our Corporate Management Team and a comprehensive review of our financial systems and processes is underway to ensure they deliver strong, efficient and effective financial management which supports and enhances our strong grip on our finances.

16. 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. We continue to actively pursue opportunities to improve and enhance Financial Management and Governance within the authority. The Council's Constitution, including the Financial Regulations and Contract Standing Orders are kept under review and updated as required.
17. 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 currently forecasting to slightly overspend against the budget (£120k as at end of December) as a result of managing significant pressures within both Children's and Adults Social Care services. Actions continue to be taken in order to bring this back into a breakeven position.
18. 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. Furthermore, the number of outstanding audit actions has reduced considerably. 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.
 - The impact of Brexit and the wider economic environment.
19. 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 Head of Finance 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 Heads of Finance to ensure those roles are being properly discharged.

20. I have reviewed the recently released CIPFA Financial Resilience Index which generally shows us to be in a strong position compared to other county councils. Taking a forward look I believe that our financial resilience will increase further in the coming year as a result of the decisions taken within this budget.

Robustness of the Budget

21. The formulation of the 2019-20 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.
22. 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
 - Buckinghamshire Business Group
23. 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.
24. 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 £4.9m have been put in place in 2019-20. 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 and the risks of not fully delivering on all savings proposals.
25. Additionally, in recognition of the decision to move to a single Unitary Council for Buckinghamshire we have recognised the likely costs of this transformation and have set aside £11m in a reserve to cover the County share of these costs.
26. 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 (c£100m over the last 5-years). Further budget reductions have been included within the Medium Term Financial Plan (£12.5m in 2019/20). This includes some ambitious proposals

to radically change the way services are delivered and 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 is becoming more difficult in every budget. 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 an economic slow-down 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. A spending review is due later in 2019;
- (c) **Brexit** - The impacts of an adverse BREXIT could be felt through many mechanisms, including but not limited to; Business rate receipt reductions through failure / emigration of UK businesses, national tax take reductions requiring greater savings in Local Government, wage inflation in our supply chain due to lack of suitable employees, loss of knowledgeable staff and council tax receipt reductions due to emigration and potential increases in council tax discounts;
- (d) **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 a high number of statemented children and have had increases in the number of children with child protection plans. The Council's strategy is to increase the number of internal placements and has had some success in this in terms of increased fostering numbers. 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;
- (e) **Local Government Funding** – With the end of the 4 year settlement, the forthcoming Spending Review, the ongoing reform of Business Rates Retention and the Fair Funding Review there is considerable uncertainty over funding levels beyond 2019/20. Prudent estimates have been made for future years, but both the quantum of funding available and the method of apportionment present a significant risk;
- (f) **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;
- (g) **Social Care Policy & Funding** – With the Green Paper on the future of Social Care still awaited and much Social Care funding either one-off or potentially ending (Adult Social Care precept and Better Care Fund), both the national policy underpinning service delivery requirements and the funding to support it are uncertain. Whilst some assumptions have been made regarding future

funding for Social Care there is a risk that these assumptions will be incorrect and that policy change will impose greater burdens on the Council;

- (h) **Care Market Sustainability** – The Council has recognised that there are other more fundamental pressures within the provider market for Care services 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;
- (i) **Investment Property Income** – Over recent years the council has invested in a portfolio of property assets in order to support the local economy to generate income streams to offset the loss of Government Funding and hence 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;
- (j) **Capital** – During 2018/19 the Council has continued to use the gateway process to ensure strong governance in this area. As a result slippage has been greatly reduced in recent years and risks of escalations in costs have been mitigated to an extent. Nonetheless, in the current climate construction costs are rising 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

- 27. 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 2019-20 through to 2022-23. Although the Council continues to commit significant resources to its school build programme it remains unclear whether this will be sufficient to deal with the rate of growth in the school population and relies on significant developer contributions.
- 28. 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 BTVLEP on infrastructure projects, districts on town centre regeneration, with national bodies on development of housing opportunities through the Housing Infrastructure Fund and on the development of East-West Rail.

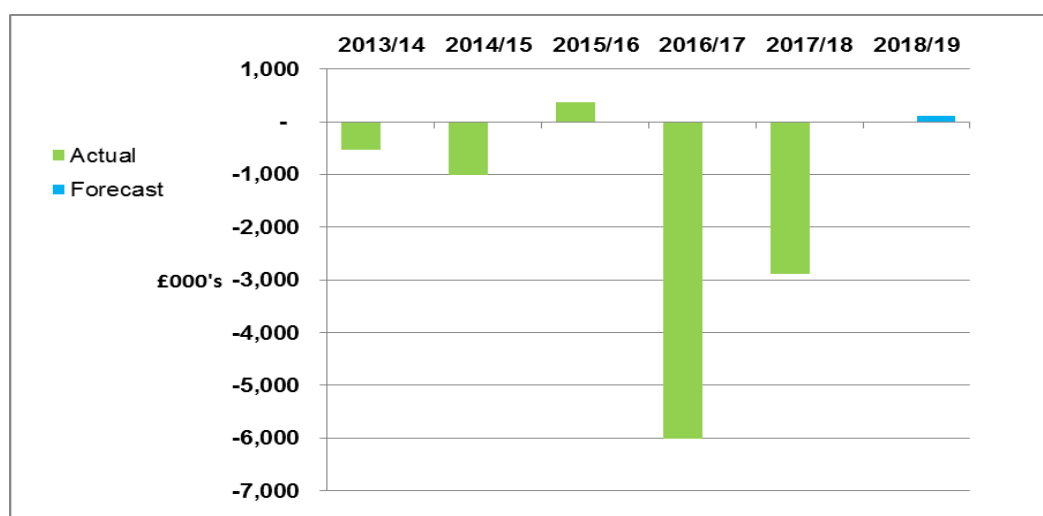
29. The capital programme includes a relatively small contingency budget in each of the four years. This provides some flexibility to respond to emerging issues and uncertainties that may arise.

Adequacy of Reserves

30. As well as a contingency budget to enable those more uncertain budgets to be managed, General Reserves (unallocated) 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.
31. A consideration in setting a prudent level of reserves and setting an acceptable budget is the underlying trend of under/over spending against the approved budget (see below). Overall the proposed budget assumes an increase to General Fund Reserves with plans included within the 2019/20 budget to add an additional £4.0m. This is expected to bring the level back up to £30m (8.7% of the net operating budget), which was the level of General Fund Reserves five years ago.

Revenue outturn position

(note: 2018/19 is a forecast outturn)



32. Schools general reserves are ring-fenced to schools. These are expected to total just under £10m as at 31 March 2019.
33. The Council holds other earmarked balances (see Appendix A for summary). The earmarked reserves are forecast to total £67.5m as at 31 March 2019. 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

34. The process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness.
35. 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.
36. 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).
37. 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 & Procurement (& 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 01/04/18 £000	Forecast 31/03/19 £000	Forecast 31/03/20 £000
	Earmarked Reserve			
i	Capital	- 30,430	- 16,743	- 10,000
ii	Efficiency Fund & Salix	- 1,177	- 1,140	- 1,140
iii	Commutated Sums	- 134	- 134	- 134
iv	Renewals	- 1,825	- 1,528	- 1,528
v	Insurance	- 6,138	- 5,500	- 5,500
vi	Election Expenses	- 15	- 89	- 213
vii	Transformation	- 1,810	- 2,000	- 1,000
viii	Social Care	- 1,528	- 941	- 500
ix	Waste	- 5,371	- 6,800	- 6,800
x	Local Economic Partnership	- 22,010	- 13,365	- 8,967
xi	Public Health	- 1,595	- 1,369	- 1,000
xii	DSG Carryforward	- 6,967	- 366	-
xiii	Strategic Asset Development	- 1,631	- 545	- 545
xiv	Adverse Weather	- 2,114	- 1,908	- 1,908
xv	Strategic Development	- 2,576	- 1,398	- 1,000
xvi	Unitary	- 5,509	- 7,700	- 11,000
xvii	Budget Smoothing		-	- 2,000
xviii	Other Earmarked Reserves	- 8,406	- 6,000	- 5,000
	Total Earmarked Reserves	- 99,235	- 67,527	- 58,235
xix	Earmarked for Schools	- 12,627	- 9,652	- 5,000
xx	Non-Earmarked Reserves	- 27,457	- 26,137	- 30,137
	Total Reserves	- 139,320	- 103,316	- 93,372

- 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 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.
- iii. 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.
- iv. 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.
- v. The Insurance reserve relates to the estimated liabilities in respect of insurance claims not yet notified.
- vi. The Election Expenses reserve is used to fund the expenses of the full Council elections which occur every four years.
- vii. The Transformation reserve is used to fund upfront work required to achieve future savings resulting from the Council's service transformation activities.
- viii. The Social Care reserve supports a range of projects that have social care and health benefits.
- ix. The Waste reserve was established to smooth the financial impact of the Energy from Waste project
- x. The Local Economic Partnership reserve has been established to set aside LEP funding to be used in future years.
- xi. The Public Health reserve holds unused Public Health grant funding to be used for legitimate purposes, such as preventative measures, in future years.
- xii. The DSG Carry-forward reserve relates to unused Dedicated Schools Grant (DSG).
- xiii. The Strategic Asset Development reserve has been established to facilitate investment in new and existing assets in order to generate future income streams.
- xiv. The Adverse Weather reserve is used in the event of unusually harsh weather particularly for salting the highway.

- xv. The Strategic Development reserve has been established to facilitate strategic development opportunities across the Council.
- xvi. The Unitary reserve will be used to meet future transitional costs of setting up the new authority. The districts will also be setting aside some funding to cover these costs.
- xvii. The Budget Smoothing reserve has been created from part of the one-off gain in 2019/20 relating to the elimination of 'Negative Revenue Support Grant' and will be used to smooth the future reductions in government funding across the Medium Term Financial Plan.
- xviii. The Other Earmarked Reserves include:
 - a. Procurement – Highways & Transportation
 - b. Country Parks
 - c. East West Rail
- xix. 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.
- xx. The Non-Earmarked reserve (General Fund) is kept at a prudent level to cover unforeseen eventualities and liabilities.