Report to Council

Date:	**22nd February 2023**
Reference number:	N/A
Title:	**Chief Finance Officer's Statutory Report**
Relevant councillor(s):	Cllr Martin Tett - Leader
Author and/or contact officer:	David Skinner, S151 Officer
Ward(s) affected:	All
Recommendations:	**Council is asked to note the content of this report**

1. Purpose of Report

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

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.

1.2 This report is the culmination of the budget process in which detailed work has taken place with Officers and Members. The Council is required to have due regard to this report when making decisions on the budget.

2. Strategic Overview

2.1 The revenue budget presented to Council is for the financial year 2023/24 only. The decision was taken to prepare a one-year budget due to the extremely high levels of volatility in the economic environment and the uncertainties surrounding future Local Government funding. Detailed plans for financial years 2024/25 and 2025/26 have been developed in the background, and these will continue to be reviewed and refined as more information becomes available.

2.2 Local Government funding remains very uncertain in the medium term due to proposed changes to the Local Government funding regime, potential reviews of Business Rates and Council Tax, and the implementation of key Government policies regarding Adult Social Care reform and the 'Levelling Up' agenda.

2.3 The Government's Autumn Statement published in November set out funding priorities for the period 2023/24 to 2027/28, with public spending broadly maintained in the first 2 years, but a tightening in spending thereafter in order to reduce government borrowing. Actual funding allocations confirmed through the Provisional Local Government Finance Settlement in December provide certainty for 2023/24 only. The long-awaited changes to Local Authority funding through the Fair Funding Reforms may significantly impact the distribution model for Government funding from 2024/25 onwards, and as such, future funding levels remain significantly uncertain.

2.4 The government issued a Local Government Finance Policy Statement on 12th December 2022, intended to provide some clarity on the financial settlement for 2024/25. This gave some clarity, confirming that Council Tax referendum thresholds for 2024/25 will be 3% for basic Council Tax and 2% for the Adult Social Care precept; that the Local Government settlement would be calculated using a similar approach to 2023/24; and that additional funding, with potentially additional costs would arise from the Extended Producer Responsibility for Packaging (EPR) scheme.

2.5 Developing the budget for financial year 2023/24 has been particularly challenging due to the current levels of inflation, with the Consumer Prices Index reaching a 41 year high of 11.2% in October. Recent months have seen small reductions and the trend is broadly consistent with Office for Budget Responsibility assumptions that have been used for budget estimates of inflation.

2.6 The Council's services are not all affected by inflation in the same way, because each service will have its own particular cost drivers such as fuel prices, energy costs, pay inflation or the effect of specific market conditions. This is particularly the case in Children's Social Care, where the market has become difficult, and placement costs have been impacted by demand significantly outweighing supply.

2.7 Social care budgets are particularly subject to a high degree of risk. This has been exacerbated by the effects of the pandemic and the NHS strategy of Discharge to Assess which is resulting in clients leaving hospital with greater care needs than before, and pressures on the health system as a whole.

2.8 Although the Provisional Local Government Finance Settlement in December allocated additional funding to Adult Social care through creation of a new Social Care grant, and additional ringfenced funding through the Better Care Fund to support the process of discharge from hospital, increasing demand and increased complexity of need continues to put pressure on our budgets. The reform of Adult Social Care, which had been expected in October 2023, is now delayed to October 2025, and this will have an effect on our budgets in future. Maintaining our adaptability to these changing factors whilst continuing to deliver high quality services will be of paramount importance.

2.9 The budget for 2023/24 has been set within the context of a challenging environment for all local authorities, with some high profile cases of local authorities failing to operate sustainably. A number of councils have applied to central government for the use of capitalisation directives to use capital funding to meet revenue pressures. In addition, we have seen a number of councils having to issue section 114 notices, banning all non-essential spend after concerns that setting a balanced budget for the forthcoming year would not be possible.

3. The Control Environment

3.1 The Council operates within a framework of strong financial governance. The constitution is a top level governance document, approved by the Full Council, and this contains the Financial Procedure Rules which set the principles for managing the Council's financial affairs. A set of strategic documents form the second level of financial governance, with a third tier represented by detailed Financial Instructions to provide clear guidance on the operation of key financial processes. All documents are regularly reviewed and updated to ensure they remain current and fit for purpose, reflecting changes in the external environment and also in the Council itself.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) publish a resilience index annually, which allows Local Authorities to assess their financial resilience against a number of measures. These include the adequacy of reserves, funding risk, and exposure to Social Care demand risk. The data has been reviewed and the Council falls into the lower half of the risk assessment for all measures. This gives assurance that the Council's financial governance is strong and that it is operating in a financially sustainable way.

3.3 The forecast outturn for 2021/22 was a balanced position, and it is expected that this will be achieved again in 2022/23. This is a significant achievement, as there have been pressures within budgets during the year, but these have been successfully managed and mitigated through the Council's strategy of setting contingency budgets for high risk areas. This prudent approach will be maintained in future to provide a mechanism for mitigating against risks. Pressures in the budget for 2022/23 have been assessed to establish whether they are ongoing or of a one-off nature, and ongoing pressures have been built into the forward budget as appropriate to ensure the right level of resource going forward.

4. Robustness of the Budget

4.1 The assumptions used to build the budget have been formulated using the most up to date information available, and cross-checked and verified against external sources such as:

a) Forecasts of inflation from the Bank of England Monetary Policy Unit's latest estimates and the Office for Budget Responsibility

b) Sector averages for growth and inflation as measured by the Society for County Treasurers, to ensure our assumptions are consistent with comparable local authorities

c) Detailed review of inflation within service areas to understand how services will be impacted by inflation on their particular cost-drivers

4.2 The budget, and the changes made in response to developments over the last year, has undergone frequent and rigorous review by:

a) Myself, as the S151 Officer;

b) The Corporate Management Team;

c) The Cabinet;

d) Management teams from all Directorates;

e) Member briefing sessions;

f) The Budget Scrutiny Task & Finish Group.

4.3 Furthermore, our current year budget monitoring and risk management processes have ensured that all ongoing pressures and risks are explicit, understood and considered within the budget development process.

4.4 Throughout the development of the budget, these groups have been made aware of the current and future risks both on service income and expenditure, local taxation receipts and the wider Local Government funding environment.

4.5 Key amongst the current and future risks are:

a) **Inflation and national economic conditions**: global economic instability, along with supply chain issues, have contributed to the current high levels of inflation in the UK economy. Although inflation is predicted to fall during 2023/24, there remains uncertainty over the levels and duration of these impacts.

b) **Central Government funding:** the Covid-19 pandemic and the UK's response to the war in Ukraine have led to unprecedented levels of national debt. Under the new fiscal rules introduced by the government as part of the Autumn statement, it will be necessary for public spending to be tightened in future years to reduce these levels, unless economic performance improves significantly. In addition, the long-awaited Local Government funding reform and impact of the Levelling Up agenda could see funding diverted away from areas that are perceived as less in need.

c) **Complexity and demand in Social Care & Client Transport**: the continued growth in demand and complexity of cases managed in Social Care services and also Home to School Transport is driving up costs, and whilst all reasonable efforts have been made to predict these impacts, there remains a large degree of uncertainty and risk.

d) **Increased demand for Temporary Accommodation**: demand for Temporary Accommodation has risen significantly due to an increase in the number of people presenting as homeless and a shortage of suitable accommodation. The Council will look to address this through a longer term solution to reduce reliance on bed and breakfast accommodation and establish a more sustainable operating model.

e) **The sustainability of providers within the Social Care market and Care Reforms:** under the Care Act, local authorities with responsibility for adult social care have a statutory duty to manage the market including, where necessary, making provision for the continuity of care if social care providers close. Although the Adult Social Care reforms have been delayed for two years, and the move to a "Fair Cost of Care" has seen an increase in fees, market sustainability remains a concern.

In Children's Social Care the national market has become sub-optimal, with demand significantly outpacing supply. This has contributed significantly to increasing placement costs in the current year.

f) **The Covid-19 pandemic:** the Covid-19 pandemic continues to present a risk to the Council's budgets. The longer term impacts on demand for the council's services continue to evolve as society continues to develop a sustainable response to the pandemic.

4.6 It is in this context that the budget contains specific contingencies to ensure that the Council is adequately planning for and mitigating the impact of any such risks which may become real.

4.7 Financial sustainability will be a critical consideration for the Council going forward, especially with the number of Councils who are having to issue S114 Notices continuing to increase, and the financial strategy will need to ensure that the Council can deliver its core services sustainably whilst maintaining the adaptability required to respond to changing levels of resources. Fully delivering the savings / additional income included within the 2023/24 budget (**£30.4m**) will be key to achieving this.

5. Adequacy of Reserves

5.1 Alongside the development of the budget proposals, there has been consideration of the level of reserves held by the council and the likely balances going forward. These balances are held against the risk of unforeseen events and provide a strong buffer against unexpected events, as well as funding across multiple years for the delivery of specific projects. A reserves protocol has been developed to support greater oversight of reserves and to ensure that they are created, used and managed in a consistent and prudent fashion.

5.2 A ratio of 5% of net revenue expenditure is the generally accepted minimum prudent level of General Fund reserves. The Council's General Fund reserves is forecast to be 9.5% of net operating expenditure at the end of 2023/24. This measure forms part of the CIPFA Resilience Index and we are currently rated as low risk for this indicator. Given current risks and uncertainties, holding above 5% in General Fund reserves is considered prudent. Earmarked reserves have been closely reviewed and are sufficient to cover all expected commitments against them, whilst providing a mechanism for managing risks.

5.3 We remain committed to using reserves only for one-off purposes, as using them for ongoing costs does not reflect sustainable financial management. There is a planned use of £1.36m from General Fund as agreed in the previous MTFP and £2.44m from Earmarked Corporate Reserves to smooth savings plans and to address Collection Fund accounting arrangements for deficit spreading.

5.4 Appendix A sets out a summary of the Council's earmarked reserves together with a description of the intended use of the reserves.

6. The Dedicated Schools Grant (DSG)

6.1 The DSG is a ring-fenced specific grant that supports local authorities' Schools budgets. Since 2019/20 the Department for Education (DfE) has set the principle, via legislation, that the DSG is ring-fenced and any deficit is to be carried on the reserve and not met from a Local Authority's General Fund. This policy, known as the statutory override for the DSG, has recently been extended for the next three years, from 2023/24 to 2025/26. There remains, however, a risk that this arrangement may cease at the end of financial year 2025/26, which would require authorities to fund the deficit from their General Fund.

6.2 Local authorities with significant deficits are required to set out a deficit management plan.

6.3 A local authority must now:

a) carry all the deficit forward to set against the Schools budget in the next financial year; or

b) carry part of the deficit forward to set against the Schools budget in the next financial year and carry the rest of it forward to the following financial year; or

c) not set any of the deficit against the Schools budget in the next financial year, but carry all the deficit forward to the following financial year.

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

6.5 The deficit for Buckinghamshire Council is projected to be £4.1m (0.8%) at the end of 2022/23 after taking into account the current in year forecast for high needs budgets and the pupil growth fund. A DSG Spending Review Group has been established in order to develop and monitor recovery actions. This group is a sub-group of the Buckinghamshire Schools Forum.

6.6 The DSG funding allocation for 2023/24 includes an increase in funding of £11.5m for the high needs block to support increased demand and other pressures. Demand and costs are projected to increase in 2023/24. In setting the high needs budget for 2023/24 the impact of mitigating actions from the DSG management plan will be included, in order to offset some of the additional demand and cost pressures for the year.

6.7 Demand for support for pupils with special educational needs and disabilities (SEND) is increasing nationally with approximately two thirds of local authorities building up DSG deficits. Local authorities with the highest level of DSG deficit have been required to enter into agreements with the DfE to reform their High Needs Block and agree a programme of savings targets to eliminate their historic deficits and function sustainably in future. Buckinghamshire will be brought within Tranche 3 of the Delivering Better Value in SEND programme launched by the DfE in June 2022, to enable them to work with authorities with smaller and/or rising deficits. Engagement in this programme will commence during the 2023/24 financial year, and will enable the council to apply for further grant funding to support the DSG Management Plan, supporting the council in moving towards a sustainable position in its high needs budget.

6.8 The Council's DSG Management Plan is focused on addressing key priorities to manage spend. Through the DSG Spending Review Group the plan will be produced and managed in partnership with schools. The DfE is expected to publish a response to the SEND Green Paper this year and this will inform priorities and actions going forwards.

7. Conclusion

7.1 Despite the prevailing risks and uncertainties identified within the budget papers, the process for the formulation of budgets, together with the level of challenge, provides a reasonable assurance of their robustness. The currently financial landscape for local authorities remains challenging, however we have managed to retain a prudent level of general fund reserves and have prioritised financial sustainability for the future. Whilst other some other authorities are struggling financially, we maintain our approach of recognising risks and setting suitable contingencies to guard against them.

7.2 The provision of contingency budgets enables broad-ranging risks and uncertainties to be managed as part of the Council's risk management arrangements.

7.3 The level of the Council's total reserves is sufficient to provide:

a) a working balance to cushion the impact of further unexpected events or uneven cash flows (general reserves), and

b) the setting aside of funds to meet known or anticipated liabilities (earmarked reserves).

7.4 **Therefore, I consider that the budget proposals recommended by the Cabinet are robust and sustainable.**

Appendix A: Summary of the Council's Reserves

The Council holds a number of reserves earmarked for specified purposes. These are reviewed quarterly to ensure that appropriate levels are held. The reserves are categorised over five classifications and are summarised below:

Classification	Forecast Closing Balance 31 March 2023 £000	Forecast Closing Balance 31 March 2024 £000
Earmarked for Capital purposes	(77,137)	(68,417)
Managing specific risks and cyclical costs	(50,623)	(42,430)
Earmarked for Future Policy Purposes	(32,750)	(28,939)
Ring-fenced funding	(26,637)	(26,154)
Held on behalf of others	(233)	(233)
Grand Total	**(187,381)**	**(166,173)**

Earmarked for Capital Purposes:

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

Managing Specific Risks and Cyclical Costs:

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

Earmarked for Future Policy Purposes:

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

Ring-Fenced Funding:

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

Held on Behalf of Others:

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