Local Government Act 2003: Section 25 Report by the Executive Director of Resources & Section 151 Officer (Chief Finance Officer)

Background

1. Section 25 of the Local Government Finance Act 2003 requires that when a local authority is agreeing its annual budget and council tax precept, the Chief Finance Officer must report to it on the following matters:

   - The robustness of the estimates made for the purposes of the (council tax requirement) calculations
   - The adequacy of the proposed financial reserves

2. The council is required to have due regard to this report when making decisions on the budget. The law expects councillors to consider this advice and not set it aside lightly.

3. In expressing my opinion, I have considered the financial management arrangements and control frameworks that are in place, the budget assumptions, the adequacy of the Budget & Business Planning process, the financial risks facing the council and the level of total reserves.

4. This report concentrates primarily on the level of uncertainty within the budget year (i.e. 2024/25). However, it also considers key medium term risks and issues faced by the Council, particularly around the delivery of savings and the increasing pressures in demand driven services which also informs the need for reserves and balances across the medium term strategy period.

Financial management arrangements and control framework

5. In building the budget and considering the risks inherent within it, it is important to consider the wider control environment which will help to manage and minimise those risks. This includes:

   - the approach to financial planning and monitoring with budget holders
   - a strong accountability framework which sets out clear roles and responsibilities in terms of financial management
   - regular and accurate reporting to Members and senior officers
   - an effective internal audit function assessing controls and processes.

6. The Code of Practice for Financial Management (the FM Code) clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. The Financial Strategy set out at Section 4.5 sets out a compliance assessment against the Code's standards. 17 of the 19 Standards have been assessed as

Green and 2 assessed as Amber meaning that compliance can be evidenced. Proposed actions to support continuous improvement and bring the ratings to Green have been included in the assessment for development in 2024/25. The two areas for improvement are:

- A - The leadership team is able to demonstrate that the services provided by the authority provide value for money (VfM).

- E – The Financial Management Style of the authority supports financial sustainability.

7. It is important for the Council to focus on these areas as weaknesses increase the risk of financial management and governance failures.

8. The council received an unqualified opinion on both the accounts for the Authority and the Pension Fund for 2021/22. In respect of securing value for money, the conclusions are based on whether the organisation has proper arrangements in place for securing financial resilience and for challenging how it secures economy, efficiency and effectiveness. The council received an unqualified value for money conclusion for 2021/22. The accounts for 2022/23 remain unaudited.[1]

9. The council's governance arrangements require a statement at the year-end from the 'corporate lead officer' for various key control areas. The Director of Finance has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. Areas for improvement are included in the Annual Governance Statement and monitored in year via the Audit & Governance Committee.

Current Financial Context

10. The Council has been operating in a climate of uncertainty and volatility alongside increased demand and price pressure during the current financial year and this is expected to continue into 2024/25 and over the medium term.

11. Inflation hit a 40 year high in the year to October 2022, with CPI at 11.1%. Whilst it has dropped significantly since then to 4.0% in the year to December 2023, it is not expected to reduce to the Bank of England's 2.0% target until the end of 2025. Additionally, post COVID-19 impacts continue to have an effect on our patterns of spend and activity particularly in adults and children's services where latent demand and the expenditure needed to meet it has in many cases been merely delayed, not removed from the system. The

[1] A letter was received from EY in April 2023 which stated that audits for 2022/23 would not commence until early 2024

cumulative impact of high inflation and high interest rates has been reflected in the costs of services during 2023/24 and continue to impact into 2024/25.

Budget Assumptions

12. The formation of the 2024/25 budget and indicative budgets for the following two years to 2026/27 have allowed for best estimates of the total financial envelope over the medium term taking into account anticipated unavoidable pressures relating to inflation and demand plus other changes to expenditure plans and the savings then required to match the funding available. It is not the role of the S25 assurance statement to comment on the precise mix of these, providing the overall combination results in a balanced budget and the estimates on which the calculation is based are robust.

13. The Budget & Business Planning process is well established. All the estimates within the proposed budget are the product of a comprehensive budget process with Cabinet Members, Executive Directors, Corporate Directors and Directors as well as regular briefings with the Cabinet Member for Finance resulting in agreement on the level of service delivery within the identified financial resources. The process has been enhanced this year through quarterly star chambers which have had a focus on robustness and deliverability of both in-year savings and savings and investments proposed for the new MTFS. In addition, the main financial risks that are taken into account in determining the estimates are set out in paragraph 15 below.

14. In forming the estimates various assumptions have been made, the main assumptions together with an assessment of their risk are set out below:

a) <u>Funding assumptions</u> – the Government's one year provisional local government financial settlement for 2024/25 and linked Policy Statement only provides certainty for the immediate financial year. There is no clarity on the future government funding from 2025/26 onwards, both in terms of specific grants such as the Social Care grant and New Homes Bonus as well as general government support through the Settlement Funding Assessment. The Policy Statement 2024/25 set out that 'now is not the time for fundamental reform, for instance implementing the Review of Relative Needs and Resources or a reset of accumulated business rates growth'.

This lack of clarity poses risks to the financial stability of the council, especially given the Autumn Statement forecasts for local government funding show spending needing to fall by 2.3% a year in real terms from 2025/26.

A Council Tax increase of 4.99% is proposed for 2024/25; the maximum allowable (without a referendum) as confirmed in the Local Government Finance Policy Statement 2024/25. The rise comprises a general precept increase of 2.99% and a 2.00% increase in the Adult Social Care precept.

Whilst the Local Government departmental limits set out in the Autumn Statement 2023 include funding for an assumed increase in Council Tax of 4.99%, the Government has not clarified any Council Tax rises beyond the base increase of 1.99%. Therefore, the MTFS currently assumes a 1.99% increase.

Given the uncertainty on government funding beyond 2024/25, it is prudent to assume lower council tax increases for 2025/26 and 2026/27 so that income assumptions are not over inflated.

Estimates of income from business rates for 2024/25 have been made based on the Settlement Funding Assessment (SFA) and linked Section 31 grant funding as set out in the provisional local government finance settlement along with an estimate of business rates growth above this baseline. Given there is no date scheduled for a business rates reset, and that any reset is likely to be phased, the MTFS assumes the continuation of the growth achieved up to 2024/25 will continue.

The existing MTFS assumed an increase in the taxbase for Band D equivalent properties in 2024/25 of 1.75% which is a return to pre COVID-19 growth assumptions. The actual increase for 2024/25 is 1.77% and the proposed MTFS continues to assume annual increases of 1.75% to 2026/27 which is a reasonable projection.

Surpluses on Council Tax collection funds for 2024/25 continue to reflect the high collection rates seen prior to the COVID-19 pandemic. The actual position notified by the districts for 2023/24 was a surplus of £15.0m and for 2024/25 it is estimated at £11.7m. With the exception of 2021/22 and 2022/23 when there was an impact related to COVID-19, council tax surpluses have averaged £8.0m each year. Therefore, the proposed MTFS assume the collection fund position for 2025/26 and beyond will be a surplus of £8.0m. Should collection rates dip below this sum in any year, there is a Collection Fund reserve which can be utilized to mitigate any volatility.

b) Inflation – Having hit a 40 year high in November 2022, inflation has fallen to 4.0% in December 2023. The OBR expects inflation to return to within its 2.0% range by the end of 2025. Whilst inflation has dropped over the last year, given the lagged effect, contracts the impact has been reflected in the cost of services and contracts during 2023/24 and is expected to continue to have a cumulative impact into 2024/25. Increases of 6% and 4% are assumed for adults and children's social care in 2024/25. Budgeted inflation of 6% for pupils with SEND and 12% for mainstream home to school transport has also been built into 2024/25 and 2025/26. Funding for on-going increases of 3% in both 2024/25 and 2025/26 is included for highways maintenance and waste management contracts. From 2025/26 onwards budgeted inflation is generally assumed to fall back to 2%.

The budget proposals reflect the increase in the National Living Wage, which not only has an impact on the Local Government pay award but also on greater demand for rates increases from contractors. The 2023/24 budget assumed a pay award for all staff groups of 4.5%, however the impact of the agreed award was equivalent to 5.5% (£1,925 up to scale point 43 or 3.88% above that) before taking account of vacant posts. The difference was met from the corporate contingency budget, which already included an allowance for a 0.5% increase. £13.2m funding to enable an increase of 6.0% in the rates the council pays for adult social care in 2024/25 is included in the budget as well as further funding of £1.5m for inflation risk.

Whilst government unions have not submitted their 2024/25 pay claim, it will be influenced by the increase in the National Living Wage, which is an increase of 9.8% from April 2024. This could suggest an increase in pay costs similar to 2023/24. Pay inflation has been budgeted for at 5.0% for 2024/25, with a further allowance in corporate contingency of 0.5% or £1.5m.

The budget proposals for 2024/25 include £38.3m for the on-going impact of inflation, including the effect of the increase in the National Living Wage on contracts for social care.

Going forward, with the expectation that the inflation pressure will slowly reduce to 2.0% by the end of 2025, the MTFS has been set in accordance with the inflationary position set out by the Bank of England with a return to levels close to the Bank's target rate of 2% from 2024/25. It is hoped that this will bring some much-needed economic stability.

c) Demographic/Demand Growth – as set out in the Financial Strategy (Section 4.5), Oxfordshire faces significant demographic growth with an expected increase in its population of 20% by 2030. This results in increased demand for services and, with a faster growing aging population, growing pressure on the health and social care system. Funding for demographic demand growth is built into the budget each year to meet forecast increases for older people, adults with learning disabilities and physical disabilities as well as growth in demand in children's social care, home to school transport and waste disposal.

In relation to adults and children's social care, given the volatility in forecasts, in addition to the demand increases built in to the MTFS, the contingency budget includes funding of up to 1% (£4.5m) of the directorate budgets for adults and children's social care to mitigate the risk of excessive demand.

d) Treasury Management – all existing debt is under fixed interest rates so is not subject to interest rate variation and the MTFS assumes an extension of the strategy to borrow internally. Internal borrowing has the effect of reducing some of the 'cost of carry'[2]. The limit of internal borrowing will be combined with the long-term debt lending limit and will not exceed £400m in 2024/25.

Prudent assumptions have been made regarding the bank rate and target in-house rates of return. The proposed MTFS assumes a return of 4.25% in 2024/25 (average for the year) reducing to 3.00% from April 2025 and 2.50% for the remainder of the MTFS period.

As at 31 December 2023, the Council had £97m (original purchase value of £101m) invested in external funds, representing 18% of the Council's total investment portfolio. Whilst market volatility has seen the capital value of the funds fluctuate recently, they are held with a long-term view, and there is no intention to divest from any of the funds at present. An estimated return of 3.75% is assumed for 2024/25 compared with a target return on the funds of between 4.00% - 5.00%. Therefore, there is no optimism bias in the income forecasts.

e) Capital Programme – the proposed Capital Programme has a balanced funding position over the ten-year period to 2033/34. Proposing a programme for ten years allows for a planned approach to the management of assets, services and needs. The total programme of £1.5bn is funded by capital grants, developer contributions, capital receipts and prudential borrowing. Over 56% of the programme is funded by grants and contributions. 17% of the programme is funded by borrowing, the full costs of which are built into the revenue budget. The costs of borrowing remain within 4-5% the council's net revenue stream throughout the MTFS period and are therefore prudent and affordable. The Capital Programme includes a programme contingency of 3% to meet any unavoidable or unforeseen costs.

The Capital and Investment Strategy (Section 5.1) outlines the council's approach to capital investment and complies with the requirements of the CIPFA Prudential Code for Local Authorities. The capital programme governance arrangements are now embedded and have strengthened the processes for inclusion of schemes in the programme. The capital programme only includes schemes that have been agreed to address identified need. These schemes have an approved initial business case, articulating a clear case for change, a defined scope, an indicative budget/investment and an agreed indicative timeline including a 'go live' date. Pipeline capital schemes are subject to further development and an approved initial business case and have only estimated costs. These schemes may change in both scope and value before being agreed through the capital governance process and brought forward into the firm programme.

[2] the difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash

Financial Risks

15. Given the growing unavoidable pressures and the need to deliver savings, the budget will inevitably contain a degree of financial risk. The key risks are set out in the following paragraphs. However, to help manage the impact of financial risk, a corporate contingency is held. The proposed level of corporate contingency for 2024/25 is £7.3m. The contingency budget is held to cover;

- the risk that demographic pressures are higher than forecast;
- any unfunded new burdens or unfunded elements of government grant;
- any potential pay awards beyond budgeted assumptions plus other inflationary risk; and
- the risk that proposed savings are not achieved in full, based on the performance targets set out in the Financial Strategy.

The need to hold a contingency budget has been demonstrated in 2023/24, when it has been used predominantly to meet the cost of the higher than budgeted pay award on an on-going basis.

a) <u>Achievement of planned savings</u> – the council has generally had a history of good delivery on its planned savings with an average achievement of 91% per year over the nine years up to 2021/22. However, delivery of planned savings reduced to 43% in 2022/23 and the savings not achieved were a contributory factor in the year end overspend of £13.4m. Progress against delivery of savings during the year is reported to Cabinet as part of the Business Management & Monitoring Report. The report to Cabinet in January 2024 shows that 83% of new savings built into the 2023/24 budget are currently assessed as green or amber. Of the £10.2m savings outstanding from 2022/23, 73% are now assessed as delivered or expected to be delivered. There are further savings in the existing and proposed MTFS which are required to be delivered up to 2026/27 totalling £31.2m, of which £18.3.m is planned for 2024/25. These include £10.3m savings anticipated as a result of actions being taken to manage sufficiency and demand for Children's Social Care which are expected to increase to £24.7m by 2026/27. A 40% risk adjustment (£4.1m) relating to the savings required to be delivered in 2024/25 through the Financial Strategy for Children's Services has however been built into the budget to mitigate any risk of non-delivery.

The Council's transformation programme, Delivering the Future Together, includes projects which will enable the delivery of savings in the MTFS. This includes those relating to staffing (£4.0m previously agreed savings plus £1.5m new savings from reducing and delayering staffing structures). The new governance arrangements including design authority controls will help improve benefits realisation and therefore provide more confidence and assurance in savings delivery, risk management and transformation to reduce demand and costs and therefore less reliance in the use of reserves and balances. In addition, there is £10.0m proposed to be added to the Transformation Reserve to help meet costs of implementing programmes designed to deliver savings.

The Financial Strategy (Section 4.5) sets out the performance target of 95% for achievement of planned savings. Given the history for delivery has generally been around 90%, and that non delivery of savings impacts on the forecast outturn position and therefore the financial sustainability of the council, the contingency budget includes provision to cover up to 5% non-delivery of planned savings.

b) Demand led pressures – There are some budgets where service user numbers for the provision of statutory services are notoriously difficult to control/predict therefore a degree of judgment has to be applied to estimate the level of risk to the budget.

The total number of children we care for (excluding unaccompanied children) rose significantly from September 2021 until August 2022. The service has implemented a number of organisational, governance and business process controls and market management actions to address the underlying pressures. As a result of this action taken during 2023, the total number of children we care for has reduced to a stable c700 from September 2023 to January 2024. However, forecast spend remains £12.8m higher than the 2023/24 budget allows for as a result of activity throughout the year and the high cost of some placements. The proposed budget for 2024/25 includes an on-going increase in funding of £8.2m to reflect the estimated on-going impact in 2024/25. A Children's Social Care Financial Strategy has been developed by the service which sets out actions required to address the key pressures within the service and to reduce the escalated costs seen in 2022/23 and 2023/24. There will need to be on-going focus on the Children's Financial Strategy to ensure that the planned savings are achieved. However, to provide some contingency for risk in delivering these savings, as referred to in paragraph 15a, a 40% risk adjustment relating to £10.3m savings planned in 2024/25 has also been built into the budget.

The number of Education and Health Care Plans (EHCPS) in Oxfordshire has risen from 2,027 in 2015/16 to a forecast 6,506 in 2023/24, an increase of 221%. This has had a direct impact on the home to school transport budget which overspent by £1.7m in 2022/23 and is forecast to overspend by £3.6m in 2023/24. In order to bring about a stable budget, a programme is underway that will identify and implement a set of interventions to manage demand more effectively. Alongside this, actions in the High Needs Deficit Recovery plan and the Delivering Better Value programme may indirectly impact on the home to school transport costs.

Through the delivery of the Oxfordshire Way, the number of people receiving adult social care services remains broadly in line with forecasted increases. The total number of adults supported in January 2024 was 6550, an increase of 1.3% from April 2023. However, there is a continuing risk that if the combined effect of demand and the level of assessed need starts to rise at a faster rate than assumed this will put pressure on the adult social care budget. Trends following the COVID-19 pandemic are more difficult than ever to predict, with pressures in hospital discharges potentially adding further pressure on the budgets in the early part of the financial year.

The additional Social Care funding of £4.8m announced as part of the Final Local Government Finance Settlement will provide some investment so that action can be taken to address these high-cost demand led services.

c) High Needs – in recent years there has been a significant increase in demand in services for children with special educational needs and disabilities. The cost of providing education is met from the Dedicated Schools Grant (DSG). Due to significant increases in the number of out of county placements and increasing numbers of Education, Health and Care Plans, the cost of high needs continues to outstrip the funding available. The forecast deficit compared to DSG funding for High Needs is £21.2m in 2023/24. This has increased by £2.9m compared to the deficit of £18.3m agreed by Cabinet in May 2023.

Action to reduce the expenditure is being taken with a High Needs Deficit Recovery Plan in place. In addition, there is ongoing insight and support via intensive engagement with the DfE Delivery Better Value (DBV) programme. The DBV programme has confirmed and provided evidence for areas of change already identified, as well as identifying several other areas to explore further. Savings of £7.9m are planned for 2024/25, despite this the projected in year deficit for next year is £21.3m and is expected to rise to £35.7m by 2026/27.

The High Needs DSG Reserve has been in deficit since 2018/19 and is expected to be in deficit by £62.3m at the end of 2023/24. As set out in the Earmarked Reserves and General Balances Policy Statement (Section 4.6), it is expected that the deficit on the reserve will increase over the medium term and could reach a deficit balance of £114.3m at the end of 2025/26 and £150.0m by the end of 2026/27.

As set out in the Financial Strategy (Section 4.5), regulations require the negative balance on the High Needs DSG Reserve to be held in an unusable reserve. The regulations were extended for three years until March 2026, but it remains unclear what the long-term arrangements will be. In agreeing an extension to the statutory override, the Department for Levelling Up Housing and Communities stated that this 'short-term financial flexibility is needed for authorities as they implement sustainable change, underpinned and reinforced by the government's longer-term reforms.

Beyond the period of the statutory override, the expectation is that the balance on the DSG Unusable Reserve will transfer back to the Council's total Earmarked Reserves. If this happens, it materially impacts on the overall level of reserves and by 1 April 2026, the total earmarked reserves held by the Council would only be £45.8m putting the financial standing of the council at risk. In this scenario, the council would need to take action to address the position. Whilst there is expectation that a solution from Government will be provided, should this not materialize, one option to ensure there was an adequate level of reserves would be to use the annual £4.0m contribution to the Demographic Risk reserve to fund the revenue costs of borrowing from the PWLB to fund the deficit. £4.0m per year for 25 years could finance £66m. This would increase the level of reserves at 1 April 2026 to £112m. This would require DLUHC and DFE approval and would not solve the issue of on-going annual deficits but would improve short term financial resilience.

d) <u>Social Care Funding and Reform</u> – the Better Care Fund (BCF) and Improved Batter Care Fund (iBCF) have been significant sources of funding for use across the Health and Social Care system since 2015/16. In combination, estimated funding for 2024/25 amounts to £41.8m. The use of the BCF and iBCF funding has to be agreed with health partners through the Better Care Fund plan. Whilst the BCF funding is expected to increase by 5.66% from the level in 2023/24, the iBCF contribution to funding adult social care is expected remain unchanged at 2022/23 levels again in 2024/25. There remains a risk that the level of future funding and the council's access to that may be impacted by national or local changes or changes to the conditions as to how the fund can be spent.

In December 2020, the government launched its Build Back Better Programme, which included significant charging reforms, the introduction of a care cap, and the completion of a cost of care exercise. Reforms were originally planned to be implemented from October 2023. The Autumn Statement in November 2022 set out that the reforms to adult social care would be delayed by two years to October 2025. No further information on implementation or funding for the reforms has been released since that date, resulting in uncertainty on what reforms will be implemented, when, and with what funding. The implementation date is now in a new parliamentary and Spending Review period which creates uncertainty.

e) <u>Inflation</u> – As set out in paragraph 14b above, higher inflation and the impacts on pay, goods and services as well as construction is still expected over the medium term. Whilst sufficient funding is built into the proposed budget for contract inflation increases based on current OBR and market projections, if inflation does not fall as fast as predicted, this may place pressure on budgets. Similarly, pay increases for 2024/25 are also based on current assumptions linked to the National Living Wage increases. The contingency budget of £7.3m does provide some protection against this risk.

f) Workforce availability - Recruitment and retention of staff is a challenge in the majority of local authorities and predictions are that shortages in the public sector workforce will continue over the longer term. This is also the case in Oxfordshire with significant shortfalls in the social care sector, teaching and professional services. In the last few years, there has been a significant increase in the use of agency staff where posts cannot be recruited to. Agency staff costs were £30m in 2021/22 and increased to £40m in 2022/23. Through the new People and Culture Strategy, one of the priorities is to ensure the Council attracts, recruits and retains talented people, defining an employer value proposition and developing employer brand to raise the employer profile.

The Children's Services Financial Strategy includes a recruitment and retention strand to support permanent recruitment, including international recruitment and a 'grow our own' Apprenticeship Scheme will reduce dependence on high-cost agency staff progressively over the next three years.

g) Major Infrastructure Programmes – the Council has been successful in securing significant funding for a number of major infrastructure programmes, most significantly HIF1 and HIF2 which are time limited and paid retrospectively. Combined the HIF programmes total £422m. In addition to the agreed costs and end dates to claiming grant payments, there are also pre-agreed milestones which must be met to claim grant payments. These conditions increase the financial risk in two regards: delivering schemes within the funding available and delivering the schemes within the funding deadline.

In relation to HIF1, primarily due to the delay caused by the planning inquiry which is due to start in February 2024, both the required funding and the time for delivery are beyond the agreement with Homes England. The current funding deadline and associated delivery programme of March 2026 cannot be achieved. Discussions are ongoing with Homes England to address these issues and so ensuring HIF1 is both affordable and deliverable.

In relation to HIF2, it was identified that the scheme had become unaffordable due to inflationary pressures in November 2022. Discussions commenced with Homes England to revise the Grant Determination Agreement (GDA) in respect of changes to the funding window, initial scheme delivery and milestones.

The Council received a Reservation of Rights letter in relation to both HIF1 and HIF2 in August 2023. These set out that as a result of not achieving milestone dates contained in the GDA (for HIF1 relating to planning approval), the Council was in general default. Consequently, the Council was required to submit proposed remediation plans setting out the steps to be taken to remedy or mitigate the effects of the general default.

Discussions are taking place regularly with Homes England to agree the remediation plans. In the interim period, waiver letters are in place for both schemes. This means that Homes England continue to pay for outstanding claims. The waiver letters are only valid for a three-month period, the most recent up to March 2024. There is a therefore a financial risk in the interim period for the costs incurred from the end date of the current waiver letter until a new waiver letter or remediation plan is agreed.

There is a risk that Homes England may not agree to the proposed modifications for either scheme and proceed to withhold and cancel any outstanding claims, withdraw further funding and subsequently, terminate the GDAs. In this scenario, the financial risk to the Council is in relation to payment of outstanding claims. The schemes would not progress so further costs would not be incurred.

If the remediation plans are agreed (and subject to the outcome of the planning inquiry in relation to HIF1), the financial risk reverts to the ability for the Council to deliver the schemes within the funding available and within the funding period. Given the most significant costs will be incurred during the construction phase, towards the end of the programmes, it will be imperative to ensure the schemes do not slip given that liability for costs incurred beyond the funding deadline would fall on the Council.

h) <u>Market Sustainability/Supplier Failure</u> - The issues detailed above around inflation and workforce availability are also reflected in the supplier market. Whilst all suppliers have their financial stability reviewed before a contract is awarded to them, and any fundamental changes to this are flagged to the Council on publication of their latest accounts, there can be a significant period of time without any update on their financial situation meaning that should a supplier fail due to financial pressures, this can be at very short notice to the Council. Suppliers also review their market involvement at regular intervals to ensure that they are making as much profit as predicted; should this not be the case then they may make decisions to withdraw from that area of the supply market entirely, again with relatively little notice to the Council. This may be mitigated through contract management and supplier management activity, so that procurement and the service can be advised of the future supplier direction, however this is not infallible and suppliers may choose to not share all relevant information.

Level of total reserves

16. The Earmarked Reserves and General Balances Policy Statement at Section 4.6 sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves. As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching

the decision on the level of balances I feel are appropriate to be held for 2024/25, I have considered the strategic, operational and financial risks facing the authority including the ability to deliver planned savings, as well as external risks such as the impact of flooding or contract risks. The recommended level of balances for 2024/25, based on the risk assessment is £30.2m.

17. Earmarked reserves are also held for specific planned purposes. In assessing the appropriate level of reserves, a review is undertaken annually to determine if they are both adequate and necessary. In addition, the Financial Resilience index has been used to provide an understanding and comparison of the level of reserves with other county councils (See Financial Strategy Section 4.5). The Earmarked Reserves and General Balances Policy Statement sets out the details of that review.

Assurance Statement of the Chief Finance Officer

18. The proposed budget for 2024/25 and Medium Term Financial Strategy to 2026/27 addresses the inflationary rises, demand pressures and the legacy impacts of COVID-19.

19. Whilst the 2024/25 budget is balanced, there remains a gap between estimated spend and funding streams for 2025/26 onwards. There is uncertainty around the future of general government funding from 2025/26 onwards with the expectation that a real terms cut to local government is probable which presents risk to the financial stability of the Council. Therefore, the council needs to maintain focus producing a balanced budget over the medium term to ensure continued financial sustainability.

20. The risks in the 2024/25 budget are predominantly in relation to demand and inflation. To help mitigate these risks, in addition to £36.8m provided for inflationary pressures, the proposed 2024/25 budget includes a contingency of £7.3m as well as £1.5m funding for inflation risk in Adult Services.

21. There is also risk from the continuing increasing demand in the high needs budget which remains under significant pressure in the current financial year and expected to remain so over the medium term.

22. The system of financial control remains sound, and financial management and financial systems are monitored to ensure they remain effective and relevant. Where areas for improvement are identified actions are agreed with directorates and support provided to implement them.

23. I believe the level of the council's total reserves is appropriate and sufficient to provide both general balances to manage the impact of unexpected events in line with the risk assessment; and the setting aside of earmarked reserves to meet known or anticipated liabilities. However, if there is no change in

government policy, and the High Needs statutory override ends on 1 April 2026, then there will be insufficient reserves from 2026/27.

24. As Section 151 officer, I can formally report that in my view the budget estimates recommended by the Cabinet are robust and the level of reserves adequate, as required by the Local Government Act 2003.

Lorna Baxter FCPFA
Executive Director of Resources and Section 151 Officer

February 2024