Section 4

Chief Finance Officer's Statutory Report

OXFORDSHIRE COUNTY COUNCIL

Local Government Act 2003: Section 25
Report by the Chief Finance Officer

Introduction

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 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.

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

4. The report is the culmination of the Service & Resource Planning process which commenced in May 2013 in which detailed work has taken place with Councillors, the County Council Management Team (CCMT) and Deputy Directors.

5. Section 25 concentrates primarily on the uncertainty within the budget year rather than the greater uncertainties in future years. However, future uncertainties, particularly around the continuing reductions in funding after 2015/16 and the increasing pressures in demand driven services also inform the need for reserves and balances in the medium term.

Financial management arrangements and control frameworks

6. The Council received an unqualified opinion on both the accounts for the Authority and the Pension Fund for 2012/13. 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 2012/13.

7. The Council has strong governance arrangements in place and a robust assurance process that requires a statement at the year end from the ‘corporate lead officer’ for various key control areas. The Chief Finance Officer 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 reported to Audit & Governance Committee and monitored in year through the Corporate Governance Assurance Group.

8. All Officers and Members are required to work within an embedded framework of pre-existing financial management arrangements and structures. The Council has a robust system of budget monitoring and control and the Council's track record for budget management over recent years has been good. Mandatory refresher training for all cost centre managers on financial management roles and responsibilities took place last summer to reinforce key messages and ensure we maintain high levels of awareness.

Level of total reserves

9. As well as holding a contingency budget to enable those more volatile budgets to be managed, general balances are also held for unforeseen spending requirements such as responding to the recent floods. The level of balances held is based on an annual risk assessment which is included in Section 2.7.1 of this report.

10. A further consideration in setting a prudent level of balances and setting a robust budget is the underlying trend of under/over spending against the budget each year. The Council has not been in a position of overall overspend at the year-end for many years. However, as budgets are reduced more and more, the flexibility to manage pressures arising in one area against underspends elsewhere will become increasingly more difficult.

11. The Financial Monitoring report for Cabinet in February 2014 sets out a forecast overspend, based on nine months of actual expenditure of £3m. It is expected that management action will reduce the forecast overspend further by the end of the 2013/14 financial year but requests for supplementary estimates to meet some of the pressures in both children's and adults' social care have been requested.

12. Earmarked reserves are also held for specific planned purposes. With decreasing base budgets associated with significant funding reductions, resources are being set aside to help manage change projects which operate over more than one financial year. These include reserves such as those for the Thriving Families programme, the Asset Rationalisation Programme and for the costs of supporting schools converting to academies. At the end of 2012/13 earmarked reserves were £136m. By the end of 2013/14 they will be £103m. It is estimated that by the end of 2014/15 they will be significantly reduced at £64m and will drop to an estimated £13m by 2017/18. The expected level of reserves remaining by 2017/18 is adequate for the purposes intended although this will need to be reviewed in light of the 2013/14 outturn and as part of the Services & Resource Planning process for 2015/16.

13. School reserves are expected to be significantly lower at the end of 2013/14 than they were at the end of 2012/13. When schools transfer to academy status any balances also transfer reducing further the amount held by the council. Schools balances are projected to fall from £21m at the end of 2013/14 to £16m by the end of 2014/15.

14. The Budget Reserve enables cash flow movements to be managed over the medium term and ensure the Council can set a balanced budget each year. This need arises as the pressures and savings profile is different over the medium term. In 2014/15 the Council will use £14m from this reserve to achieve a balanced budget. Section 2.3 of this report highlights the expected shortfall in the Budget Reserve by 2015/16. My report to Cabinet in January 2014 set out the need to temporarily use other reserves or other balances such as developer contributions over the medium term to manage the cash flow position, as the council cannot hold a deficit reserve. Any temporary use of other reserves or other balances would need to be replaced in a subsequent year. This position will need to be monitored closely and reviewed as part of the next Service & Resource Planning process to ensure the position is manageable.

Budget Assumptions

15. The formation of the 2014/15 budget and indicative budgets for the following three years to 2017/18 have allowed for best estimates of the total financial envelope over the medium term taking into account anticipated unavoidable pressures and the savings then required to match the funding available. In forming the estimates various assumptions have been made. The main assumptions together with an assessment of their risk are set out below:

a) Government grant – revenue support grant is forecast to reduce in line with the decreases seen over the last four years. The MTFP assumes a reduction of 58% by 2017/18 compared to the grant figure for 2013/14. This is in line with the recent statements by the Chancellor and with the figures set out in the Autumn Statement 2013. Top-up grant is assumed to increase in line with the Retail Price Index (RPI).

b) Council Tax – an increase in Council Tax of 1.99% is proposed for 2014/15 within the referendum limit announced by the Local Government Minister on 5 February 2014. The same increase is proposed for 2015/16 on the basis that the original referendum announcement was for the two years to 2015/16. From 2016/17, the MTFP assumes Council Tax increases of 3.0% each year. Whilst this is higher than the current referendum limit, the timeframe is beyond the next general election and with the economy starting to grow the next government may have a different view on annual council tax increases. The position will need to be reviewed as part of the Service & Resource Planning process next year in light of the latest information.

c) Non Domestic Rates – Business rates income for 2014/15 is based on the forecasts provided by the District Councils, with future years assuming growth in line with RPI. This is a cautious assumption given the expected growth in the economy. The 2014/15 budget takes account of the £0.2m deficit on collection for 2013/14, the first year of the operation of the business rates retention scheme. No assumptions have been made about surpluses/deficits on collection for future years as these are difficult to predict, particularly with the uncertainty of the impact of appeals.

d) Council Tax base & surpluses/deficit on collection – the MTFP assumes increases in the taxbase of 0.75% each year. Whilst the increase for 2014/15 was 1.44%, the impact on the future taxbase of the Council Tax Support scheme and Universal Credit are not yet known. Therefore it is prudent to assume a lower increase in future. The position is the same with surpluses/deficits on Council Tax collection, where the actual figure for 2014/15 is £6.9m compared to the budgeted sum of £2.0m.

e) Inflation – contract inflation is provided for at a maximum of 3% in each year of the MTFP, broadly in line with current RPI. Pay inflation is built in at 1% for 2014/15 and 2015/16 in line with the Chancellor's announcement that there would be a further cap on public sector pay in the 2013 Spending Round. Increases of 2.5% are assumed beyond then. Inflation on income from fees and charges is assumed at 2% broadly in line with CPI. General inflation on non-pay budgets has been assumed as zero in each year of the MTFP and continues with the approach introduced in 2013/14.

f) Interest Rates – all existing debt is under fixed interest rates so is not subject to interest rate variation and the MTFP assumes an extension of the strategy to borrow internally for prudential borrowing schemes. Prudent returns above the Bank Rate have been assumed for each year of the MTFP with an expectation that the Bank Rate does not start to rise until 2016/17 and then does so slowly.

g) Capital Programme – the four year capital programme has been developed on the basis of estimates of future capital funding allocations from government grants in addition to use of reserves, capital receipts and S106 funding, with the assumption that the new capital proposals could be met from flexible capital resources available to allocate. New additions to the programme have been based on the previously agreed prioritisation principles. Due to the late and unexpected announcement of significantly reduced education basic need funding for 2015/16 and 2016/17; the proposal to agree a firm programme for 2014/15 and to review during the year the future years' education capital is a sensible approach and gives time to consider how the shortfall in funding should be addressed.

Service & Resource Planning Process

16. The Service & Resource planning process is well established and the formation of the 2014/15 budget and MTFP has been carried out in conjunction with the formation of new Directorate Business Strategies. A refreshed Corporate Plan will be agreed in April 2014 but the key theme of 'A Thriving Oxfordshire' remains unchanged.

17. There have been a number of enhancements to the process this year in the formulation of budget proposals and the level of challenge which provide a reasonable assurance of their robustness. The key enhancements were:

- Scene setting with Cabinet and CCMT in May 2013
- Earlier public engagement through Talking Oxfordshire
- Wider and earlier cross party councillor engagement
- New Scrutiny Committee structure and process

18. Examination of the budget proposals through the Service & resource Planning process has led to a number of refinements and provides assurance about the robustness of the estimates. Scrutiny of the budget around revenue reductions has also been considered from an equalities perspective.

Financial Risks

19. Given the reductions in government grant funding, the limitation on the level of Council Tax increases, the growing unavoidable pressures and the scale of savings required, the budget will inevitably contain a degree of risk. The key risks include:

a) Achievement of savings plan – the Council has a good track record of successfully delivering significant savings with £170m due to be delivered by the end of 2013/14. However with a further £95m of savings to be achieved over the next four years these additional savings could be more difficult to deliver. Unlike previous years' there is only a very limited amount of money in the Efficiency Reserve to pay for redundancies and for the costs of transformation. There is a risk, if these costs cannot be met from within existing budgets that they will need to be the first call against the savings, pushing back the timing of achieving the savings. In addition, as set out in paragraph 14 above, there is a cash flow shortfall based on timing of the savings plans. It will be important to monitor the delivery of the savings carefully during the year and to review the cash flow position as part of the Service & Resource Planning process next year.

b) Demand led pressures – There are some budgets where client numbers for statutory services are notoriously difficult to control and where a degree of judgment has to be applied to estimate the level of risk to the budget. This year we have seen a significant increase in demand in both children's and adults' social care. The financial plans assume this peak in demand will tail off but there is a risk it will not. To mitigate these high risks, a contingency budget is built into the MTFP. However, this may not be sufficient to meet all requirements and the demand trends will need to be carefully monitored.

c) <u>Financial position of Oxfordshire Clinical Commissioning Group (OCCG)</u> – OCCG are currently forecasting a deficit of £6m for 2013/14 and an anticipated shortfall of £27m for 2014/15, although contract negotiations with the NHS providers have not yet been completed. This gives rise to a risk for the council both in relation to the older peoples' pooled budget and the use of the Better Care Fund. Whilst the plans for the Better Care Fund have been agreed in principle between the council and the CCG, it is not additional or new funding. Therefore, given the current financial position of the CCG there is some risk to the assumptions in the budget regarding the resources expected in 2014/15 but more so the further £8m expected in 2015/16. The Chairman and Vice-Chairman of the Health & Wellbeing Board are required to sign off the draft plan by 14 February 2014, with final plans agreed by 4 April 2014. It will be imperative for the council to work with the CCG to support them to overcome their financial challenges and for the Health & Wellbeing Board to monitor progress against the significant financial challenges faced by the CCG over the coming year (as well as the risks of rising demand for social care).

d) <u>Inflation provision</u> – the budget proposals assume that services can manage the impact of zero inflation on non-pay budgets with the exception of contracts which is provided for at a maximum of 3%. There is a degree of risk in this but given there is a corporate inflation provision from 2015/16 to meet any additional requirements and that the risk assessment of balances for 2014/15 also takes into account an allowance for inflation, I consider the assumptions are reasonable.

e) <u>Capacity to deliver</u> – over the past few years, the number of staff has been reduced by 30% and the number of senior managers by 40%. Delivering the savings required will be difficult in terms of capacity particularly as the plans are more complex and ambitious. There is also a potential risk around delivery of the capital programme with significant targeted government grant through both the Local Transport Board and the recently announced City Deal which require funding to be spent or committed by April 2015 to secure the grant funding. Other financial implications of the City Deal will need to be confirmed during the financial year once more information is available.

f) <u>Market Failure</u> –with an increasing amount of work being undertaken either in partnership or through contracts, their financial resilience becomes increasingly important. During 2012/13 several bus contractors went into administration and the immediate action required to ensure a continued service along with replacement contracts gave rise to additional costs. This risk of market failure continues.

Robustness of the budget

20. The proposed budget addresses the estimated reduction in funding over the next four years and sets out a plan to ensure that the Council can deliver budgets within estimated available resources. The savings plan will require close monitoring to ensure it is delivered on time. However, it sets a clear direction for the future and places the Council in a sensible position to meet the challenges ahead.

21. There are some risks in the budget largely in relation to certain demand led budgets such as children's social care, which is under pressure in the current financial year. There is also a range of pressures and uncertainties in adult social care, particularly in relation to older people. To help mitigate these risks, a contingency budget of £3m has been built into 2014/15 which will provide some safety-net. With ever tightening resources there is more risk in the budget for 2015/16 and beyond and this will need to be reviewed as part of the next Service & Resource Planning process.

22. The level of the Council's total reserves is 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.

23. Therefore, I am satisfied that the budget proposals recommended by the Cabinet are robust.

Lorna Baxter
Chief Finance Officer

6 February 2014