Section 3

Statutory Report by the Director of Finance

(Chief Finance Officer)

OXFORDSHIRE
COUNTY COUNCIL

Local Government Act 2003: Section 25
Report by the Director of Finance (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 (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 Service & Resource Planning process, the financial risks facing the Council and the level of total reserves.

4. The report is the culmination of the Service & Resource Planning process, which commenced in September following the publication of the Technical Consultation on the 2018/19 settlement by the Ministry for Housing, Communities and Local Government[1] as well as the first report to Cabinet setting out the context to the process.

5. Section 25 of the Local Government Act 2003 concentrates primarily on the uncertainty within the budget year (i.e. 2018/19) rather than the greater uncertainties in future years. However, future uncertainties, particularly around the delivery of savings 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 2016/17. 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 2016/17. In respect of Value for Money, the annual audit letter's finding was that 'we did not identify any

[1] Previously Department for Communities and Local Government

significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people'.

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 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 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 reporting and the Council's track record for budget management over recent years has been good.

Budget Assumptions

9. The formation of the 2018/19 budget and indicative budgets for the following three years to 2021/22 have allowed for best estimates of the total financial envelope over the medium term taking into account anticipated unavoidable pressures plus investments 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 – in accepting the government's offer of a four-year settlement through the publishing of an Efficiency Plan in September 2016, funding through revenue support grant and business rates top-up grant for 2018/19 to 2019/20 has been confirmed in line with that announced as part of the final Local Government Finance Settlement in February 2016. The figures reduce revenue support grant to £5.9m in 2018/19 and a negative revenue support grant in 2019/20 of -£6.2m in 2019/20. As part of the provisional local government finance settlement, the Secretary of State for Housing, Communities & Local Government announced there would be a consultation in Spring 2018 on 'fair and affordable options' to address negative revenue support grant.

   Alongside the settlement, a consultation was published on the future distribution of funding in local government with the introduction of a new methodology planned for April 2020. The new formula is expected to reflect both relative need and relative resource. Given the government's clear acknowledgement of pressures relating to social care, particularly adult social care, it could be expected that the council would benefit from this element in a new formula.

However, Oxfordshire has a high tax base and ability to raise income, which is the proxy for relative resources. It could be expected that the council would be adversely affected by this element in a new formula. Given these two elements, the working assumption is that each cancels the other out and the council neither benefits or loses from the new formula. However, the impact of a new formula will not be known until draft figures are published as part of the Provisional Local Government Finance Settlement is announced in December 2019.

b) Council Tax – an increase in Council Tax of 5.99% is proposed for 2018/19 within the referendum limits confirmed by the Local Government Minister as part of the provisional Local Government Finance Settlement announced in December 2017. The increase for 2018/19 comprises a 2.99% general increase and 3.00% for social care and reflects the ability to raise general council tax by a further 1.00% in both 2018/19 and 2019/20 in line with current levels of inflation. A proposed increase of 2.99% is planned for 2019/20. However, the referendum limit is subject to levels of inflation rates next autumn so could change. Beyond 2019/20, increases of 1.99% are planned.

c) Non-Domestic Rates – business rates income for 2018/19 is based on the forecasts provided by the District Councils, with growth exceeding MTFP assumptions by £2.4m (including section 31 grant) reflecting recent growth in Oxfordshire including the impact of the Westgate Centre opening in Oxford in October 2017. Future years assumptions of growth are in line with CPI only which is a cautious assumption given growth is expected to continue. The 2018/19 budget takes account of a £0.1m deficit on collection for 2017/18. This is the fifth year of the operation of the business rates retention scheme and each year has seen a deficit on collection particularly linked to the impact of appeals. A reserve with an annual contribution of £0.5m was created in 2015/16 to cushion the impact of collection fund deficits. This will be used to meet the shortfall in 2018/19.

d) Council Tax base & surpluses/deficit on collection – the definition of core spending was introduced as part of the provisional Local Government Finance Settlement in December 2015 and included assumptions to 2019/20 on both council tax rate increases and increases in the taxbase. The assumptions included an annual increase in taxbase of 1.63% and this is reflected in the existing MTFP for 2019/20 and 2020/21. Based on recent increases of 2.05% in 2016/17 and 2.14% in 2017/18, an increase of 2.00% was assumed for 2018/19. However, the actual increase for 2018/19 is only 1.24%. The reason for the smaller increase is due to lower house build rates during 2017/18 than expected which then impacts on the rate for 2018/19. The combined increase for 2017/18 and 2018/19 is actually 1.69%, more in line with the assumptions in core spending. Although, the increase for 2018/19 was lower than expected, the districts latest trajectories of the annual monitoring reports for housing delivery suggests an increase in houses of 4,825 in 2018/19 and 4,954 in 2019/20 before any accelerated delivery as part of the Housing and Growth deal. From an analysis of taxbase increases compared to house building, it appears that the two are broadly the same. It is therefore realistic to assume a 2.0% taxbase increase in 2019/20. Beyond 2019/20 2.0% growth is also assumed, however as the taxbase increases so does the number of homes to achieve a 2.0% growth. Before the predicted trajectory of new houses as part of the deal, increases for 2020/21 and beyond are in the range of 4,272 (1.63%) to 4,556 (1.77%) and if the deal is agreed the range is 5,714 (2.18%) to 6,379 (2.48%). Given the range of growth expected, it is realistic to assume a 2.0% increase in taxbase beyond 2019/20.

Surpluses on Council Tax collection have been high in recent years and have not been less than £4.8m since the localisation of council tax support in 2013/14. The actual figure for 2018/19 is £5.3m. The existing MTFP assumes £4.0m per year from collection fund surpluses, however this is proposed to be increased to £4.5m given recent experience.

e) Inflation – pay inflation for 2018/19 and 2019/20 was assumed in the MTFP to be 1.0% reflecting the announcement in the 2015 Spending Review that the average public sector pay increases up to and including 2019/20 would be 1.0%. However, the proposed budget and MTFP reflect the final offer from the National Employers of a 2% increase both 2018/19 and 2019/20, with a higher increase for those on lower pay points to reflect the increase in the National Living Wage. Should the final offer be rejected and a higher pay increase agreed, any additional cost will need to be met from contingency. Beyond 2019/20, pay inflation is included in the proposed MTFP at 2.5%. The 2017/18 and 2018/19 pay award for Firefighters continues to be negotiated. An allowance of £0.6m is held in the Corporate Contingency budget pending a decision.

Subject to consultation, a £3.9m pressure is likely to arise from the impact of the National Living Wage on the rates the council pays external providers for adult social care which will be funded from the Adult Social Care precept.

General inflation on non-pay budgets has been assumed as zero in each year of the MTFP continuing with the approach introduced in 2013/14 and inflation on income from fees and charges is assumed at 2% in each year of the MTFP. Contract inflation is provided for, dependent on the index applied to the contract, based on inflation rates in August 2017 of 2.9% for CPI, 3.9% for RPI and 4.1% for RPIX.

Inflation has, as expected, risen considerably over the last year. In December 2017, RPI and CPI were at 4.1% and 3.0% respectively (compared to 2.5% and 1.6% respectively in December 2016). However, as the latest figures are broadly in line with the increases built in for contracts, the inflationary pressure on the 2018/19 budget is expected to be limited.

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. The current MTFP assumes an average bank rate of 0.25% for 2018/19 to 2020/21. Following the increase in the Bank Rate to 0.50% in November 2017 and that current inflation forecasts continue to overshoot the Bank of England target; forecast interest rates have been revised and assume a 0.25% increase in 2018/19 giving an average bank rate of 0.63%. The target return on in-house deposits is 0.75%, and for externally managed deposits the target rate of return (excluding capital appreciation) is 4.0%. Beyond 2018/19, a further 0.25% increase is forecast in both 2019/20 and 2020/21 resulting in an average bank rate of 0.88% and 1.0% respectively. An average bank rate of 1.0% is also forecast for 2021/22. Given the uncertainty of future rates, the proposed MTFP does not assume any return in excess of the forecast bank rates beyond 2018/19.

g) Capital Programme – the approach to capital programme planning has changed this year and a ten-year programme has been developed to allow for a longer-term approach which will offer strategic choice and options around developing community assets, responding to issues such as rising demand in adults and children's services and allows for a planned methodology to the replacement of assets. Estimates of future capital funding allocations from government grants have been assumed across the programme period in addition to use of reserves and S106 funding. Prudent assumptions have been made about future capital receipts and reflect only those for which there is an agreed approach in terms of disposal. As with any longer-term planning, assumptions will need to be reviewed each year to endure they are still appropriate. All the funding for major infrastructure schemes is now allocated via the Local Growth Fund through the LEP. As the accountable body for OxLEP, all the funding is administered by the Council and included in the Capital Programme. In addition, subject to approval by Cabinet on 12 February 2018, funding for the Oxfordshire Housing and Growth Deal is also included in the proposed programme.

Service & Resource Planning Process

10. The Service & Resource planning process is well established. The clear financial planning principles set the framework in which the budget for 2018/19 and MTFP to 2021/22 have been proposed.

11. The approach has been enabled by the considerably sounder financial footing of the Council over the medium term, with a remaining two-year funding settlement already agreed with government, a robust MTFP and the difficult decisions of previous years now standing the organisation in good stead for the future.

12. The approach has also been informed by the Council's Fit for the Future transformation programme which has reached a pivotal point. The phase of work which completed in January has been of immense importance for determining the future direction of the Council. This piece of work has demonstrated that the Council can secure savings in excess of the target £17.4m[2] in the MTFP aligned to transformation. Further work will take place over the next six months to develop a detailed design for the Council's future operating model following which an implementation period of up to two years will follow.

13. The existing MTFP includes the savings from transformation in full in 2018/19. To reflect the work set out in the paragraph above, as part of the proposed MTFP, the savings have been re-phased to £8.5m in 2019/20, £3.5m in 2020/21 and £3.0m in 2021/22. Depending on the outcome of work to design the Council's future operating model, the phasing may need to be revised again as part of the Service & Resource Planning process for 2019/20.

14. The construction of the budget and examination of the budget proposals has been subject to challenge by the Council's Leadership Team and the Director of Finance. The approach to financial planning over the medium term was discussed with the Political Group Leaders ahead of the process commencing in September 2017. A member engagement session was held in November 2017 for Cabinet plus key members of the Labour and Liberal Democrat Groups to consider the proposed capital portfolio areas and review the latest revenue improvements and investments, and pressures and savings. All councillors have had the opportunity to question and challenge the financial planning approach including proposed savings through member presentations on the budget in November 2017 as well as January 2018. A briefing session was also held with union representatives in January 2018.

15. Performance Scrutiny Committee in December 2017 and January 2018 considered the revenue improvements and investments plus pressures and savings and commented back to Cabinet. A public consultation on the budget was also held over a five-week period which closed in early January 2018. The Cabinet considered both the comments from Performance Scrutiny Committee and the public consultation in proposing its budget in January 2018. Scrutiny of the budget savings has also been considered from an equalities perspective.

Financial Risks

16. Given the reductions in government grant funding, the limitation on the level of Council Tax increases, the growing unavoidable pressures and the scale of

[2] £15m in the existing MTFP and £2.4m in the proposed MTFP linked to ICT

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, having achieved £299m savings by the end of 2016/17. Further savings of £61m planned to be delivered in 2017/18 taking the total savings achieved to £360m. Progress against delivery of savings is reported to Cabinet as part of the Financial Monitoring and Medium Term Financial Plan Delivery report and Political Group Leaders also track progress on a regular basis. Of the £61.1m savings required in 2017/18, as at the end of October 2017, 91% had been achieved or were on track to be achieved.

   There are further savings in the existing MTFP still to be delivered up to 2020/21 totalling £30m[3], which includes the £15m from the Fit for the Future Programme. Some funding remains in the Transformation Fund to meet the anticipated costs of the next phase of work to develop a detailed design for the Council's future operating model. Costs of implementation will need to be found from reserves or as a first call against expected savings. This will need to be considered as part of the Service & Resource Planning process for 2019/20 or met from reserves if any expenditure beyond the existing provision is required during 2018/19.

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. We have seen a significant increase in demand in both children's and adults' social care over the last few years both nationally and locally. An additional £5.3m was built into the children's social care budget from 2016/17. However, demand has continued to rise and an overspend of £8.5m is forecast in 2017/18. At the end of March 2017, there were 667 looked after children, an increase of 254 (60%) from April 2013. At 31 December 2017, the number had increased to an all-time high of 710. The average number for our statistical neighbours (the authorities most similar to Oxfordshire in terms of need for children's social care) would be 616. £8.4m is built into the proposed budget for 2018/19 as well as further increases of around £1.0m per year to 2021/22 recognising that growth is expected over the medium term. Work is currently underway as part of the Fit for the Future programme to understand, manage and reduce demand. The Children's transformation programme has a target saving of £3.1m allocated to children's social care in 2018/19. This will be achieved through work to safely reconnect families, to safely reduce the number of children coming into care through earlier and more effective intervention and through contract reviews. If the programme does deliver on its ambition, then

[3] Excluding corporate savings which reduce the overall figure to £17m

it is expected that the funding in the proposed MTFP should be sufficient to meet current and future demand. However, it remains a risk.

In relation to adult social care, the total number of people receiving on going long term support from adult social care rose by 9.3% to 7,342 in 2016/17. Demographic increases are built into the budget each year and while the increase was higher than in 2015/16, service user numbers during 2016/17 remained broadly in line with expectations. That is still the case in 2017/18, although there is pressure on budgets for adults with learning disabilities reflecting high cost packages and service users transitioning from Children's Social Care. There is a continuing risk that if demand or the level of assessed need starts to rise at a faster rate than assumed this will put pressure on the adult social care budget.

While there is no further Adult Social Care grant available in 2018/19, as this was one off in 2017/18, additional funding is available from the Adult Social Care Precept, and there is also £6.4m one – off improved Better Care Fund (iBCF) Grant funding. While the iBCF grant for 2018/19 has been confirmed as the local system achieved the November 2017 target trajectory for Delayed Transfers of Care, there is a risk to the £3.2m iBCF grant notified for 2019/20 if future targets are not achieved.

After taking account of £10.1m new funding generated through the Adult Social Care Precept, adjusted for the removal of £2.3m one – off Adult Social Care grant, additional on-going funding totalling £7.9m will be available for adult social care from 2018/19. There is no further increase in the precept allowed from 2019/20 onwards, but £3.3m utilised on a temporary basis in 2018/19 will be available to support on-going expenditure pressures in addition to £5.0m demography.

Over the last two years there has also been a significant increase in demand in services for children with special educational needs and disabilities. The cost of most services is met from the Dedicated Schools Grant, which is forecasting to overspend by £4.1m in 2017/18 due to significant increases in the number of out of county placements and statementing requirements. This is partially offset by one off funding in 2017/18, however the issue remains in 2018/19 and beyond. £0.3m funding has been allocated by the Education Funding Agency to undertake a review of High Needs provision, but with the ringfencing of Dedicated Schools Grant blocks, this remains a real risk to the Council. In relation to special educational needs home to school transport, there is also a combination of growth in the demand for services and an increase in the cost of passenger journeys. An additional £1.9m was built into the budget for 2017/18 and the existing MTFP includes £0.8m in both 2018/19 and 2019/20 to reflect expected demographic changes. £0.4m is proposed as part of the new MTFP in relation to 2020/21 and 2021/22. Work on managing and reducing demand is also underway in this area as part of the Fit for the Future programme. It is expected therefore that the additional funding over the medium term should be sufficient to meet costs.

c) The Health and Social Care system – The first phase of Oxfordshire's Transformation Plan is subject to an on-going legal challenge. As such the outcome, and financial impacts of this, and the approach to on-going health transformation, remain unclear, but there is a risk that there will be direct or indirect financial implications for adult social care services.

The Oxfordshire Health & Social Care system was reviewed by the Care Quality Commission in November 2017 and the final report is expected to be published in early February 2018. This review was carried out following a request from the Secretaries of State for Health and Housing, Communities and Local Government to undertake a programme of 20 targeted reviews of local authority areas. The purpose of these reviews is to understand how people move through the health and social care system with a focus on the interfaces between services. A national report will bring together key findings nationally and a local action plan will be agreed by the Oxfordshire Health & Wellbeing Board. Until this is agreed it is unclear what the financial implications for adult social care will be.

The Government has indicated that it will publish a green paper on care and support for older people by summer 2018. This will set out plans for how government proposes to improve care and support for older people and tackle the challenge of an ageing population. It is likely that over the medium term this will have implications for the funding of adult social care but as yet this is unclear.

d) Implications of Britain leaving the EU - The full impact of Britain exiting the EU still remains difficult to determine, as it will depend on formation of government policy, negotiations and decisions being made in the UK, Europe and the rest of the world which appear to be slow in progressing. In addition to impacts on growth, trade and foreign investment, there will be implications for immigration and jobs. Whilst financial markets are currently relatively stable and growth forecasts for this year have just been revised up to 2.0%, there may be a period of uncertainty before confidence rises as the path ahead becomes more certain as we move closer towards the date of exit on 29 March 2019.

e) Employment capacity – Oxfordshire is approaching full employment and recruitment of care workers in both adults and children's services as well as other key service areas is already difficult. It is forecast that 750 new care workers will be required each year for the next ten years to meet the needs of a growing population of older people and those living longer with complex conditions, and turnover amongst existing care staff including loss to other sectors. The opening of the new Westgate Centre in October 2017 created an additional 3000 jobs in an area of low unemployment and there are also risks relating to workforce arising from Britain leaving the EU. The Council will need to ensure it develops robust strategies to attract and retain staff to meet this risk. As many of these staff are not necessarily employed by the Council, there is also a need to work with providers to ensure they also have policies and strategies to mitigate this risk.

f) Unfunded New Burdens – Where new duties, policies or initiatives are passed onto local authorities, central Government has agreed that all new burdens should be properly assessed and fully funded. The new burdens doctrine has been in place since 2011 and Government departments are required to adhere to it. One area where the Council feels it is not receiving sufficient funding to meet costs is in relation to Unaccompanied Asylum Seeking Children (UASC). The grant received is insufficient to meet costs as it is based on a national average and costs are much higher in the South East. The Council has been lobbying Government to fund the estimated shortfall since 2016/17, but it has not been successful in securing additional funding. It is expected that the cost of £1.0m in 2017/18 will continue into 2018/19 and will rise if further UASCs are placed in Oxfordshire. As this is a new burden, the Council will not be making provision in the budget for 2018/19 for any shortfall. If the full funding is not received, then it will need to be met from either balances or contingency.

g) Accountable body status – Oxfordshire County Council is the accountable body for both OxLEP and the Oxfordshire Housing and Growth Deal. Consequently, all government funding for these passes to the Council and as recipient of funding from central government is responsible for compliance with the grant conditions which include the obligation to repay, in whole or in part, grants in the event of non-compliance with grant conditions. The Council will enter into appropriate legal agreements or contracts where project or scheme delivery is being carried out by an organisation other than the Council to ensure compliance with grant conditions, accounting policies, financial procedure rules and contract procedure rules.

Furthermore, in relation to OxLEP, part of the City Del agreement with central government is to deliver £40m of infrastructure schemes using growth in business rate yield from the Science Vale Enterprise Zone. As the accountable body for OxLEP, the council will need to borrow from the PWLB[4] in 2018/19 and 2019/20 when most capital expenditure is incurred and repay the loan (principal and interest) from annual business rate income[5]. However, there is a risk that income from business rate growth is not sufficient to meet the cost of

[4] Public Works Loan Board (or its replacement body)
[5] above the baseline at the date of creation of the enterprise zone in 2011

the loan repayments and if this happens, the council will need to bear the cost until business rate income is sufficient to meet the cost of the repayments.

h) Market capacity and stability - The care market in Oxfordshire continues to be fragile, but there have been fewer provider failures to date this year than in 2016/17. We have increased rates paid to providers through the Improved Better Care Fund grant funding and through that sought to stabilise the market locally. However, because of workforce issues there remains a lack of home care provision which is impacting on the council's ability to source home support.

   More recently, the liquidation of Carillion PLC and the termination of the remaining part of the contract for cleaning, catering and FM poses a financial risk. In relation to the liquidation, there is a significant risk now that the liability for known defects arising from construction of properties can no longer be claimed for. Although the financial risk associated with unknown or latent defects can be insured against, any potential insurance premium will be significant. In relation to building maintenance, there is risk that properties fail to meet adequate condition standards. In both circumstances, there is a significant risk that the Council will need to find additional capital and revenue funding to meet these costs. In the wake of the liquidation, there may be a number of sub-contractors who could themselves fall into liquidation as a direct result of their relationship with Carillion PLC causing further market instability. There is also a shorter-term risk in terms of service delivery relating to cleaning, catering and FM whilst the processes and structures become embedded following TUPE transfer on 1 February 2018.

   Another risk is around the internal capacity and market capacity to deliver the Oxfordshire Housing and Growth Deal in addition to the Council's own capital programme. This could be exacerbated if the Council is successful in its Housing Infrastructure Fund bids, including that for Didcot Garden Town. We will know if the bids will be considered for the detailed business case stage in March and the final outcome in September 2018.

i) Sleep-in Care backdated pay obligations – A recent employment tribunal case and subsequent appeal by Royal Mencap in late 2017 resulted in national government providing more clarity on how sleeping nights should be treated in relation to the National Living/Minimum Wage. Whilst the Council has responded to the cost of funding sleep–in care at the National Living Wage for 2017/18 and on an on-going future basis in the MTFP, there remains a risk if providers are required to meet backdated pay obligations. That might them mean that they either seek to raise contract prices to remain viable and/or seek retrospective funding from commissioning authorities. There is also a potential risk of provider collapse.

Level of total reserves

17. As well as holding a contingency budget of £6.0m in 2018/19 to enable those more volatile budgets to be managed, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching a decision on the level of balances I feel are appropriate to be held for 2018/19, 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. The recommended level of balances for 2018/19, based on the risk assessment included in Section 4.7 of this report, is £16.3m.

18. 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. As budgets are reduced more and more, the flexibility to manage pressures arising in one area against underspends elsewhere becomes increasingly more difficult. An overspend of £1.6m on Directorate budgets was reported at the end of 2016/17. Contained within the outturn position were underlying overspends relating to placements within children's social care (£5.9m[6]) and special educational needs home to school transport (£2.0m). The underlying pressures were addressed as part of the 2017/18 budget, however, the additional funding of £4.6m for children's social care did not provide sufficient to meet further rises in demand.

19. The Financial Monitoring report for Cabinet in December 2017 set out a forecast overspend, based on seven months of actual expenditure of £11.0m. This forecast includes £1.0m of costs relating to UASC which have not been funded by grant as described in paragraph 16(f) above and is prior to utilising the corporate contingency of £4.1m. The main areas of overspending are all reflected in the proposed MTFP and described in the financial risks section of this report. They include; £5.7m on external placements and leaving care; £1.0m in relation to disabled children and £1.7m on the adults with care and support needs pooled budget, which predominantly relates to adults with learning disabilities. After use of the corporate contingency of £4.1m, at this stage the remaining overspend of £6.9m will need to be met from balances. As balances are currently £7.2m[7] more than the risk assessed level of £17.6m, meeting the overspend will reduce balances to £18.8m by the end of 2017/18, still above the risk assessed level for 2018/19 of £16.3m.

20. 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. The new policy agreed by Cabinet in January set out a change in approach to combine a number of low value directorate reserves into a new Budget Prioritisation reserve. This is being

---

[6] This was reduced to £3.9m by one-off use of reserves and contingency

[7] £4.7m was included in the 2017/18budget as a contribution to balances as they were expected to drop below the risk assessed level at the end of 2016/17.

utilised in 2018/19 in line with the financial planning principles which set out that a holistic approach will be taken in using reserves in 2018/19 and 2019/20 to allow time for the actions to reduce demand start to take effect. £14.7m of earmarked reserves are being used towards setting a balanced budget for 2018/19. At the end of 2016/17, earmarked reserves were £86.0m (excluding school reserves). By the end of 2017/18, they are estimated to reduce to £67.2m; to £55.0m by the end of 2018/19; and to reduce steadily to £53.5m by 2021/22. The expected levels of reserves remaining by 2021/22 are adequate for the purposes intended. Despite the plan to use significant reserves in 2017/18 and 2018/19, the expected level of reserves is higher than the £42.8m anticipated at the end of the existing MTFP in 2020/21.

21. School reserves are expected to reduce from £18.4m at the end of 2016/17 to £10.5m at the end of 2017/18. The level of reserves is expected to fall considerably over the medium term as schools utilise them. At the point of conversion from a maintained school to an academy, any balances also transfer reducing further the amount held by the Council. Schools balances are projected to fall to £2.2m by the end of 2021/22.

22. The Budget Equalisation 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. The existing MTFP assumed a balance of £1.2m at the end of 2017/18 and a contribution to the reserve of £5.6m in 2018/19. The new budget proposals require full use of the reserve in 2018/19. In the proposed MTFP, the reserve is expected to be in surplus by £5.6m at the end of 2019/20 and is planned to increase to £15.5m by 2021/22. However, each year as part of the Service & Resource Planning process, the Budget Equalisation Reserve is used to manage the differences in timing between pressures and savings and it is expected to be utilised in full over the medium term.

Robustness of the budget

23. The proposed budget and Medium Term Financial Plan addresses the demand pressures that are expected to continue into the medium term. It includes agreed reductions in funding to 2019/20 and sets out a plan to ensure that the Council can deliver the 2018/19 budget within estimated available resources.

24. As set out in paragraph 16a, savings of £15m from the Fit for the Future Programme need to be delivered over the period 2019/20 to 2021/22, as well as £2.4m in the proposed MTFP relating to ICT. Whilst there is some funding set aside to deliver the next phase of the programme, any investment funding required as part of the implementation phase will need to be met from reserves, if any expenditure beyond the existing provision is required during 2018/19, and future requirements set out as part of the Service & Resource Planning process

in 2019/20. This will either need to be met from reserves or be the first call against the savings made.

25. Overall, the budget and MTFP set a clear direction for the future and place the Council in a sensible position to meet the challenges ahead.

26. There are risks in the budget largely in relation to the demand led budgets in particular children's social care which is under significant pressure in the current financial year. There is also a range of pressures and uncertainties in adult social care, particularly in relation to growing demand and the potential consequences of pressures on the health system. To help mitigate these risks, a contingency budget of £6.0m (0.6% of the gross budget excluding schools), has been built into 2018/19, which will provide some degree of a safety net.

27. 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.

28. Therefore, I am satisfied that the budget proposals for 2018/19 recommended by the Cabinet are robust.

Lorna Baxter
Director of Finance

5 February 2018