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)

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 Service & Resource Planning process, the financial risks facing the Council and the level of total reserves.

4. Section 25 of the Local Government Act 2003 concentrates primarily on the uncertainty within the budget year (i.e. 2020/21). 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

5. The Council received an unqualified opinion on both the accounts for the Authority and the Pension Fund for 2018/19. 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 2018/19.

6. 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.

7. Financial Management remains a key focus. A fundamental review of the Finance Service has been completed, and a new structure implemented that has been designed to support effective financial management performance across the Council. The new ways of working will become embedded in 2020/21 and will continue to be developed in line with other organisational change. CIPFA have published a new Financial Management Code which sets out he

8. models of good practice. The Council operates in line with the standards, with leadership, financial planning and financial resilience a strength. The main areas of attention for development and improvement during 2020/21 will be financial management competency across the Council, and budget management.

Budget Assumptions

9. The formation of the 2020/21 budget and indicative budgets for the following three years to 2023/24 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) <u>Funding assumptions</u> – General Government funding by way of the Settlement Funding Assessment for 2020/21 has been notified by MHCLG as part of the Local Government Finance Settlement. Where specific government grants have been notified, these are reflected in the MTFP. Where grants have not been confirmed, which at the time of writing, include Public Health, these have been assumed to continue at the same level as 2019/20

   Beyond 2020/21, there is no certainty in terms of local government finance. This makes it difficult to plan for the medium term. Details and assumptions have been set out in the Financial Strategy at Section 4.6.

   The maximum increase in Council Tax is proposed for 2020/21, within the referendum limit, as set out in the Local Government Finance Settlement. Beyond 2020/21, assumed maximum increases of 1.99% are planned on the assumption that the adult social care precept does not continue.

   Business rates forecast income for 2020/21has been provided by the District Councils. It is assumed that all growth will be removed when the business rate baseline is reset, currently forecast to be in 2021/22, at the same time as the introduction of the proposed 75% Business Rates retention scheme.

   The increase in taxbase for 2020/21 was in line with assumptions in the MTFP. Beyond 2020/21 a flat increase of 5,000 per year is assumed across proposed

MTFP. The Housing & Growth Deal should deliver accelerated housing and forecast increases beyond 2020/21 set out in the deal document range between 5,714 and 6,379 per year over the medium term. This higher forecast has not yet materialized, so an annual increase in the taxbase of 5,000 is realistic.

Surpluses on Council Tax collection funds continue to be high and have not been less than £5.0m since the localisation of council tax support in 2013/14. The proposed MTFP includes an increase of £0.5m per year, to £5.0m on annual collection fund surpluses.

b) Inflation – The Green Book pay award for 2020/21 is still to be agreed. The budget provides for a 2.0% increase based on latest assumptions. If the pay award is higher, the cost will need to be met from contingency. A 0.5% change in the pay award has a £0.8m impact on the budget. The budget also assumes the July 2020 Firefighters pay award will be 2.2%. A 0.5% change has an impact of less than £0.1m on the budget.

The Government announced that the National Living Wage will increase by £0.51 per hour to £8.72, in April 2020. This will have an impact on the rates that the council will pay for care in 2020/21 but it is anticipated that increase can be managed within existing funding for inflationary uplifts included in the MTFP of £1.3m.

Contract inflation is provided for dependent on the index applied to the contract, based on inflation rates in September 2019. Inflation has continued to reduce over the last year and the latest figures from December 2019, show a further decrease, with RPI and CPI at 2.2% and 1.3% respectively (compared to 2.7% and 2.0% respectively in December 2018). No inflation is built in for other categories of spend, however, a 1% inflation uplift on other areas of spend only equates to £0.25m so alongside the increases built in for contracts, there should be no inflationary pressure in 2020/21.

c) Demographic/Demand Growth - Funding for demographic growth is built into the budget each year. Funding to meet forecast increases for older people, adults with learning disabilities and physical disabilities are included the MTFP, as has growth in demand in children's social care and special educational needs home to school transport. In relation to adults and children's social care, demand increases have been built into the proposed budget and MTFP at the mid-point of growth projections, increases at the high of forecasts are built into the corporate contingency budget (see Paragraph 12)

d) Treasury Management – 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 up to a maximum of £100m.

The proposed MTFP assumes the bank rate will remain at 0.75% during 2020/21 and across the medium term, with returns 0.10% higher than the bank rate for 2020/21 only. There remains a risk of a cut to Bank of England base rate in coming months. Consequently, longer term deposits have been actively increased to protect against this, however a cut in base rate of 0.25% could still reduce the return on in house investments by up to £0.50m during 2020/21, depending on the timing of a reduction.

Externally managed funds have a variable net asset value which means that the value of the funds can decrease as well as increase. There is a statutory override which allows for any movement in the value of the pooled funds to be held on the balance sheet until the asset is sold, thereby not impacting on the general fund. An estimated return of 3.75% is assumed for 2020/21 compared with a target return on the funds of 4.50%. Therefore, there is no optimism bias in the income forecasts.

e) Capital Programme – Where confirmation has not been received, estimates of future capital grant allocations have been assumed across the programme. Secured or estimated S106 funding is also built in as well as use of reserves. Prudent assumptions have been made about future capital receipts and reflect only those for which there is an agreed approach in terms of disposal. Extending the programme to ten years has allowed for a planned approach to the management of assets, services and needs.

As set out in the Capital & Investment Strategy, the existing programme includes up to £120m investment in highways and property funded by borrowing (external, internal, or a combination of both) afforded by growth in the taxbase over the level assumed in the MTFP. Whilst the taxbase increase for 2020/21 has not exceeded the planned level, cash balances are forecast to remain high over the medium term. The council will therefore use internal borrowing to meet the costs over the medium term and the interest earned on the cash foregone is built into the proposed MTFP. Therefore, despite not achieving extra income from council tax revenues to pay for the borrowing, the investment is affordable.

The proposed Capital Programme has a funding shortfall of £18.4m over the ten-year period to 2029/30. A fundamental review of the programme will be undertaken in 2020/21, to achieve the ambition that all schemes contained in the programme are defined from supporting strategies. Once there is a clear view about what schemes support the relevant strategies, a decision can be made on whether to defer, rescope or remove schemes, or alternativey to undertake borrowing to meet the investment required. In the short term, there is sufficient cash flow to manage this shortfall; there is also a capital programme contingency held at 3% of the programme value, which could be used to manage the position if required. Given these points, a shortfall in financing the programme is acceptable at this time.

Service & Resource Planning Process

10. The financial planning principles for the budget and medium-term plan set out the Financial Strategy are the critical elements to ensure the Council can succeed in long term sustainability and financial resilience. These set out the framework in which the budget for 2020/21 and MTFP to 2023/24 have been proposed.

11. The Service & Resource planning process is well established. The construction of the budget and examination of the budget proposals has been subject to challenge by the Directorate Leadership Teams, the Council's leadership team, CEDR, and the Director of Finance. There has been engagement with the Political Group Leaders as well as a number of member engagement and briefing sessions. A briefing session was also held with union representatives.

12. Performance Scrutiny Committee considered the revenue budget and MTFP proposals as well as the Capital & Investment Strategy and capital programme at their meeting in January 2020 and commented back to Cabinet. A public consultation on the budget was also held over a three-week period which closed on 29 January 2020. Scrutiny of the budget savings has also been considered from an equalities perspective.

Financial Risks

13. Given the reductions in government grant funding, the limits placed on the level of Council Tax increases, the growing unavoidable pressures and the continuing need to deliver savings, the budget will inevitably contain a degree of risk. The key risks are set out in the following paragraphs. However, to help manage the impact of financial risk, the corporate contingency budget is held to cover the risk that demographic pressures are at the higher end of forecasts, rather than the mid-range forecast assumed in the service budgets; the risk that the time or resources required to deliver invest to save or invest to reduce demand is not sufficient; and the risk that proposed savings are not achieved in full, based on the performance targets set out in the Financial Strategy. The proposed level of corporate contingency for 2020/21 is £4.9m.

    a) Achievement of planned savings – the Council has a history of successfully delivering significant savings as set out below. Whilst delivery in 2019/20 has reduced, those savings which are not as a result of slippage, and can no longer be achieved, are reflected in the proposed budget and MTFP. Progress against delivery of savings is reported to Cabinet monthly as part of the Business Management Report. There are further savings in the existing and proposed MTFP which are still to be delivered up to 2023/24 totalling £28.8m. Of this, the most significant are £17.0m savings relating to service redesign and £3.0m from the LED Street Lighting replacement programme.

	Total Savings £m	Savings Not Achieved £m	Savings Achieved %
2019/20 (latest)	36.8	7.2	80%
2018/19	41.0	4.1	90%
2017/18	61.1	2.9	95%
2016/17	52.5	5.1	90%
2015/16	42.8	1.8	96%
2014/15	34.0	2.2	94%

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. Growth in demand and cost in Children's Social Care continues to be an issue. Compared to statistical neighbours, Oxfordshire is within the range expected based on population size and characteristics. However, whilst the number of looked after children during 2019/20 remains within forecasts, the number of children requiring high cost placements has increased costs significantly. Work is currently underway as part of the Children's transformation programme to manage and reduce demand through the Family Safeguarding plus Model and the Fostering initiative project. If these programmes deliver on their ambition, then it is expected that the funding in the proposed MTFP should be sufficient to meet current and future demand. However, this area remains a risk.

In relation to adult social care, the council has focused on preventative services such as equipment to ensure people can remain independent as long as possible. This means that the number of people receiving adult social care services remains in line with forecast increases. However, the average cost of care across all service users has increased by over 5% in the last year. This reflects increases in the level of need of individual people, particularly for adults of working age. 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.

In recent years there has been a significant increase in demand in services for children with special educational needs and disabilities. Whilst the cost of providing education is met from the Dedicated Schools Grant, home to school transport costs fall on the Council. Due to significant increases in the number of out of county placements and statementing requirements, the High Needs Reserve will be in deficit at the end of 2019/20 and will rise considerably over the medium term. The creation of additional places and related capital investment as part of the SEND Sufficiency Strategy should help to reduce the pressure over the longer term. However, this area remains a risk. As set out in the Financial Strategy (Section 4.6), there is also uncertainty about how the projected deficit should be accounted for. Whilst the Department for Education require the deficit to be carried forward, authorities cannot have negative reserves, therefore they need to ensure there are sufficient reserves to offset the deficit. Forecast earmarked reserves are greater than the forecast deficit on the High Needs DSG in each year of the MTFP.

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 journeys as students are needing to travel further due to the shortfall in local provision. An additional £4.2m is built into the proposed MTFP for 2020/21 to reflect expected costs. Work on managing and reducing demand is underway in this area, but there remains a risk that costs and demand continue to grow in the short term.

c) The Health and Social Care system – : . The use of the BCF and iBCF funding has to be agreed with health partners through the Better Care Fund plan so there is a risk that the level of future funding and the council's access to that may be impacted by national or local changes.

Joint work is underway with the Buckinghamshire and Berkshire West health and social care systems to transition to an Integrated Care System (ICS) to cover the three geographical areas. System leaders have begun development of the ICS Financial Framework by exploring options for the management of a system financial control total. The outcome, and financial impacts of this, remain unclear, but there is a risk that there will be direct or indirect financial implications for adult social care services. The NHS Long Term Plan, including the development of services to support "Ageing Well" is also likely to have implications for social care services.

In December 2019 the Queen's Speech confirmed that the Government will seek cross-party consensus on the long term reform of adult social care. It also specifically mentioned that no one who needs care will have to sell their home to pay for it. There are no timescales currently, but this is likely to have significant implications for the funding of adult social care. At this stage the impact remains unclear.

d) Implications of Britain leaving the EU – The UK is now in a transition period until 31 December 2020. During this time, a free trade agreement will need to be negotiated as well as other aspects of future relationships with the EU such as law enforcement, data sharing and security. Should a free trade deal not be agreed by 31 December 2020, then there remains the risk of impacts on growth, trade and foreign investment. Whilst financial markets are currently relatively stable there may be a period of uncertainty before confidence rises once an agreement is reached.

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 difficult. It is forecast that 750 new care workers will be required annually to meet the needs of older people, and to respond to turnover amongst existing care staff and loss to other sectors. The Council is working jointly with health partners to develop robust strategies to attract and retain staff and working with local care providers to ensure they also have policies and strategies to mitigate this risk.

f) Accountable body status – Oxfordshire County Council is the accountable body for both OxLEP and the Oxfordshire Growth Board. Government funding for these passes to the Council and as recipient of the funding, the Council is responsible for compliance with the grant conditions which include the obligation to repay. The Council will enter into appropriate legal or funding agreements where delivery is being carried out by other organisations to ensure the risk to the Council is minimized.

In relation to OxLEP, part of the City Deal agreement with central government is to deliver £40m of infrastructure schemes using growth in business rates from the Science Vale Enterprise Zone. As the accountable body for OxLEP, the council will need to borrow, either internally or from the PWLB[1] in 2020/21 and repay the loan (principal and interest) from annual business rate income[2]. However, there is a risk that income from business rate growth is not sufficient to meet the cost of 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.

g) Sleep-in Care backdated pay obligations – An appeal on whether sleep-in shift workers are entitled to back-payments from employers, will be considered by the Supreme Court in February 2020. The case has wide implications for all social care providers, and there remains a risk that they may still be required to meet backdated pay obligations. In turn, this could mean they either seek to raise contract prices and/or seek retrospective funding from commissioning authorities. In the worst case there is also a potential risk of provider collapse.

Level of total reserves

14. The Earmarked Reserves and General Balances Policy Statement at Section 4.7 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 2020/21, I have considered the strategic, operational and financial risks facing the authority including the ability to deliver planned savings, as well as external

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

risks such as the impact of flooding. The recommended level of balances for 2020/21, based on the risk assessment is £23.4m.

15. 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 Earmarked Reserves and General Balances Policy Statement sets out the details of that review.

Assurance Statement of the Chief Finance Officer

16. The proposed budget for 2020/21 and Medium Term Financial Plan to 2023/24 addresses the demand pressures that are expected to continue into the medium term.

17. Whilst the 2020/21 budget is balanced, there remains a significant gap between estimated spend and funding streams for 2021/22. This is solely due to the uncertainty of funding under the new fair funding formula and as a result of the next spending review. However, the Council needs to maintain focus on financial sustainability and producing a balanced budget over the medium term.

18. There are risks in the budget largely in relation to the demand led budgets in children's social care, high needs and special educational needs home to school transport which are all 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 complexity of need and the potential consequences of pressures on the health system. To help mitigate these risks, a contingency budget of £4.9m has been built into the budget in 2020/21, which will provide some degree of a safety net.

19. The control environment and associated processes in place are robust. Financial management has been reviewed and actions are in place to strengthen them.

20. I believe 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.

21. Therefore, I am satisfied that the budget proposals for 2020/21 recommended by the Cabinet are robust.

Lorna Baxter, Director of Finance

1 February 2020