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 Budget & Business 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., 2022/23). 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

5. The council received an unqualified opinion on both the accounts for the Authority and the Pension Fund for 2019/20. 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 2019/20. The accounts for 2020/21 are still subject to audit completion.

6. 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 reported to Audit & Governance Committee and monitored in year through the Corporate Governance Assurance Group.

7. The Code of Practice for Financial Management (the FM Code) was introduced by CIPFA in November 2019. The 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. Full compliance with the FM Code is expected for 2021/22. The Financial Strategy set out at Section 4.5 sets out a compliance assessment against the Code's standards. All 19 Standards have been assessed as Green meaning that compliance can be evidenced. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment for development in 2022/23. The assessment will also be used to help inform the council's Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts. CIPFA's Financial Management Code is expected to be in force from 2021/22.

8. Financial Management remains under continuous review. It is a key priority for the Finance Service to enable Directorates to design, implement and maintain effective financial management as part of their business management, and during service transformation. Financial management is also in scope for the Leadership and Management Project under phase two of the Delivering the Future Together Programme commencing in February 2022.

Financial Impact of COVID-19

9. Since March 2020, the pandemic has required local authorities to make rapid adjustments to meet new demands and to step up work in critical frontline services. These new and increased demands have resulted in significant additional expenditure. At the same time, council income streams have been severely damaged by lockdowns and other restrictions. During 2020/21, and 2021/22 additional funding has been provided from central Government to help councils with the financial impact of COVID-19. The Council has received a total of £51.6m of un-ringfenced government grant and £71.4m of ringfenced grant over this period. In addition, Council was asked to agree a formal amendment to the 2020/21 budget in September 2020, which identified £14.9m of in-year savings, as at that time the additional spending and income losses related to the Covid-19 pandemic and projected increases in demand would not be offset by the grants received from government. In total, this has provided a total of £137.1m of COVID-19 funding.

10. At the end of 2020/21, the Council had incurred COVID-19 costs of £68.9m and is expected to incur costs of £49.7m during 2021/22. This leaves a balance of £23.4m for use in 2022/23 and beyond, held in the COVID-19 reserve. £20.2m of this funding is proposed to be used to meet short to medium term pressures from 2022/23 to 2025/26 leaving an uncommitted balance of £3.3m available for unplanned or unexpected costs.

Budget Assumptions

11. The formation of the 2022/23 budget and indicative budgets for the following three years to 2025/26 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. 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.

12. 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, Corporate Directors and Directors resulting in agreement on the level of service delivery within the identified financial resources. In addition, the main financial risks that are taken into account in determining the estimates are set out in paragraph 14 below.

13. 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 2022/23 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 Medium Term Financial Strategy (MTFS). 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 2021/22.

    Beyond 2022/23, there is no certainty in terms of local government finance making it difficult to plan for the medium term. The expectation now is that funding reforms will be implemented from 2023/24. Details and assumptions have been set out in the Financial Strategy at Section 4.5.

    A Council Tax increase of 4.99% is proposed for 2022/23; the maximum allowable (without a referendum). This comprises a general precept increase of 1.99%, the remaining 2.00% of the 3.00% Adult Social Care precept allowed to be spread over 2021/22 and 2022/23 plus a further 1.00% Adult Social Care precept announced as part of the Local Government Finance Settlement in December 2021.

    Business rates forecast income for 2022/23 has been provided by the district councils. For 2022/23, there is a reduction against forecast income of £0.6m and a deficit on the collection fund of £1.6m. There remains £2.5m in the Business Rates reserve to meet any future losses on the collection fund. It is assumed that all growth will be removed when the business rate baseline is reset, now forecast to be in 2023/24, at the same time as the introduction of new funding reforms.

The existing MTFS assumed there would be an increase in the number of council tax support claimants due to the impact of COVID-19, therefore the increase in taxbase in the MTFS for 2022/23 was lower than previous assumptions at an increase in Band D equivalent properties of 1.5%. The actual increase was 1.75% and the proposed MTFS assumes annual increases of 1.75% to 2025/26 which is a reasonable projection.

Surpluses on Council Tax collection funds for 2022/23 continue to reflect the high collection rates seen prior to the pandemic. It was anticipated that the impact of COVID-19 may impact in 2022/23 and the MTFS assumed a reduced surplus of £2m. However, the actual position is a surplus of £6.4m.

The proposed MTFS assumes the collection fund position for 2023/24 and beyond will be a surplus of £4.0m. There also remains £3.0m in the Council Tax Collection Fund reserve to meet any future shortfalls against the budget.

b) Inflation – The Spending Review 2021 (SR21) set out the Bank of England's forecast is for inflation to peak at 4.4% by June 2022 returning to the 2% target by the end of 2024. The Consumer Prices Index (CPI) increased by 3.1% in the 12 months to September 2021, compared to a low of 0.4% in February 2021. Of this, energy and goods contributed 1.9% to CPI inflation in September. Ongoing global supply chain issues and labour market shortages are likely to push up inflation over the coming months. The Spending Review publication notes that the 'OBR acknowledges more persistent supply and demand mismatches and further increases in energy costs are possible and pose an upside risk to inflation'. The forecast peak of 4.4% could therefore be higher and the 'OBR has noted that developments since it closed its forecast would be consistent with inflation peaking at close to 5%'. The budget proposals include £4.9m for contract inflation in 2022/23 assuming RPIx of 5.7%, RPI of 5.6% and CPI of 4.0%.

SR21 announced the reintroduction of public sector pay rises over the three year Spending Review period to 2024/25 following a pause announced in SR20. Despite the pause in 2021/22, given the Government cannot impose this restriction on local government, as pay is determined between the employers and unions, a pay award is expected to be agreed for 2021/22. However, local government unions are currently in dispute regarding the pay award offer for 2021/22 of 1.75%. Increases for 2022/23 and across the MTFS have been assumed at 2.5%.

As well as inflationary pressures there are also a number of supply side issues that could impact on expenditure over the medium term therefore the proposed budget also includes £4.4m funding for Adult Services to support care market sustainability.

c) Demographic/Demand Growth - Funding for demographic demand 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 MTFS, as has growth in demand in children's social care and special educational needs home to school transport. Increases are also built in for waste disposal. In relation to adults and children's social care, demand increases have been built into the proposed budget and MTFS at the mid-point of growth projections. Any increase in excess of this would need to be met from the contingency budget (see paragraph 14).

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'[1]. The limit of internal borrowing will be combined with the long term debt lending limit, and will not exceed £300m in 2022/23.

   Prudent assumptions have been made regarding the bank rate and target in-house rates of return. The proposed MTFS assumes a return of 0.35% in 2022/23 rising slowly over the medium term, linked to an increasing bank rate, to 1.00% by April 2024 and remaining stable for the remainder of the MTFS period.

   As at 30 November 2021, the council had £104m invested in external funds with an original purchase value of £101m. 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 2022/23 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 – 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. Proposing a programme for ten years allows for a planned approach to the management of assets, services and needs.

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

The proposed Capital Programme has a balanced funding position over the ten-year period to 2031/32 after taking account of £90m new prudential borrowing proposed to be funded through the revenue budget from 2022/23 onwards. This funding is being used to support specific new and existing schemes as well as providing £50m contingency to mitigate risks to the deliverability and cost of major infrastructure schemes. The programme continues to distinguish between firm schemes which have defined costs and outcomes to meet identified needs and pipeline schemes which have estimated scope and costs to meet predicted needs.

The existing programme also includes an additional £80m investment funded by prudential borrowing that was agreed in September 2018. This investment is being made over five years so 2022/23 will be the fourth year. The level of borrowing to fund capital programme is considered prudent and affordable.

Financial Risks

14. Given the restrictions in government grant funding, the limits placed on the level of Council Tax increases, the continuing impacts of COVID-19, 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 2022/23 is £6.6m. This is in line with levels held in previous years. 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.

a) <u>COVID-19</u> –The impact of COVID-19 on public health, the economy and services will be a continuing and situation throughout 2022/23 and over the medium term. This will present several risks to the council including:

- Insufficient market capacity to meet demand;
- Sustainability of existing contracts for supply of works, goods and services;
- Increase in price for goods and services;
- Reduced capacity and availability in the supply chain creating delays in delivery;
- Workforce availability, recruitment and retention;
- Reduced income.

Paragraph 10 above sets out how the Council is mitigating these risks though funding available in the COVID-19 reserve.

b) Achievement of planned savings – the council has a history of good delivery on its planned savings with an average achievement of 90% per year over the last nine years. 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 MTFS which are still to be delivered up to 2025/26 totalling £17.6m, of which £17.4m is planned for 2022/23. Savings plans continue to focus on managing demand, redesign services and income generation. The financial strategy (Section 4.5) sets out the performance target of 95% for achievement of planned savings. Given the history for delivery is 90%, the contingency budget includes provision for up to 5% non-delivery of planned savings.

c) Social Care 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. The effects of the COVID-19 pandemic on children and their families means there remains significant uncertainty for 2022/23 and the medium term in terms of rising demand, complexity of need, increased safeguarding risk and the market for both placements and social workers. The impact of COVID-19 has resulted in delays in obtaining the benefits from implementing the Family Safeguarding plus Model which is designed to reduce child protection numbers and to reduce the numbers of children becoming looked after. Whilst progress is being made, the benefits have been rephased, the anticipated full financial benefits are now expected to be realised in 2024/25. Similarly, other initiatives such as the Young Peoples accommodation are also proving challenging in light of rising costs from market pressures and increased complexity.

The number of people receiving adult social care services remains broadly in line with forecast increases. 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. There is also a significant risk in relation to unit cost with pay and inflationary pressures for providers, recruitment and retention of staff in the care sector, along with general market pressures. Although we have budgeted for an up to 6% fee uplift, there is an indication that the market may challenge that this is insufficient.

d) 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. Due to significant increases in the number of out of county placements and increasing numbers of Education, Health & Care Plans, the cost of high needs far outstrips the funding available.

The High Needs DSG Reserve was in deficit at the end of 2020/21 by £18.1m and is expected to be in deficit at the end of 2021/22 by £34.2m. As set out in the Earmarked Reserves and General Balances Policy Statement (Section 4.6) it is expected that the deficit on the Dedicated Schools Grant (DSG) High Needs Reserve will increase over the medium term and could reach a deficit balance of £201.9m by the end of the MTFS period.

As set out in the Financial Strategy (Section 4.5), regulations stipulate that a deficit on the DSG must be carried forward to be funded from future DSG income. However, the DfE has not brought forward a plan to bring levels of funding for High Needs provision up to sustainable levels. Irrespective of this, it is imperative that the council continues to develop and implement its reforms for High Needs to bring expenditure more in line with grant allocations.

The regulations which require the negative balance on the High Needs DSG Reserve to be held in an unusable reserve come to an end on 1 April 2023. If a solution is not found or extension of the regulations is not granted the balance on the 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 2025/26, the Council would be in a position where its total earmarked reserves were negative, and the financial standing of the council put at risk. In this scenario, the council would need to take action to address the position. However, the risk associated with this is considered low and the expectations are that an extension of the regulations will be granted. Therefore, the position does not currently impact on decisions over the medium term.

e) 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. Whilst the iBCF funding will increase by 3% from the level in 2021/22, the BCF contribution to funding adult social care is expected remain at 2021/22 levels. In combination, funding for 2022/23 amounts to £37.0m. 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.

In order to allow sufficient time for the remaining parliamentary stages of the Health and Care bill, a revised target date of 1 July 2022 has been agreed for the new arrangements to take effect and Integrated Care Boards (ICBs) to be legally and operationally established. This replaces the previously stated target date of 1 April 2022. This new target date will provide some extra flexibility as Integrated Care Systems prepare for the new statutory arrangements and manage the immediate priorities in the pandemic response, while maintaining momentum towards more effective system working. The outcome, and financial impacts of this locally still remain unclear, but there is a risk that there will be direct or indirect financial implications for the Better Care Fund and adult social care services more generally.

In December 2020 the government launched its Build Back Better Programme. As part of this, the introduction of the care cap ('Fair Cost of Care') in October 2023 will extend care to self-funders which will very likely result in increasing demand for care accessed via the local authority. In addition, the requirement that local authorities must work to equalise the market between self-funded and state-funded care is likely to generate an increase in unit costs paid. Government announcements to date state that funding will cover the cost of implementing charging reforms, increasing the capital limit, moving towards paying a fair rate of care and associated implementation costs, along with a commitment to address any significant variation to these projections. However, until final proposals are in place and further work is completed it will not be possible to be certain that this will be sufficient in Oxfordshire and therefore may represent an unfunded new burden.

f) Inflation – As set out in paragraph 11b above, rising inflation levels are expected over the medium term. Whilst sufficient funding is built into the proposed budget for contract inflation increases based on current OBR projections, if these rise further, there may be pressures placed on contacts. Similarly, pay increases are also based on current assumptions of inflation. The contingency budget of £6.6m does provide some protection against this risk.

g) Workforce availability - Recruitment and retention of front-line children's social workers is an issue in the majority of local authorities and represents an increasing challenge in Oxfordshire. Work is underway to address the vacancies over the medium to longer term, but it is currently anticipated that a pressure will continue into 2022/23. Furthermore, the regional Memorandum of Cooperation which aims to control the cost of agency staff has been unable to continue to operate due to service demand regionally. This is creating increased competition for available experienced social workers, which in turn has led to increased hourly rates across the region. In addition, the high agency rates of experienced temporary staff appear to have had an impact on the ability of the council to recruit and retain our own permanent experienced social workers, although recruitment of newly qualified social workers remains stable.

Adult social care workforce pressures are also prevalent. Government funding has been provided to deliver measures that address local workforce capacity pressures through recruitment and retention activity, but the position remains challenging.

h) Accountable body status – Oxfordshire County Council is the accountable body for both OxLEP and the Future Oxfordshire Partnership (formerly 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.

OxLEP is able to retain the business rates from two Enterprise Zones in Oxfordshire. The income is used to support schemes which align with OxLEP's strategic economic development objectives and includes the City Deal agreement with central government in 2014 to deliver £40m of infrastructure schemes. In addition, in January 2022, OxLEP agreed a contribution of up to £10m to help secure the onward delivery of the Didcot Garden Town (HIF1) project. As the accountable body for OxLEP, the council will borrow from the PWLB[2] to meet the capital costs and repay the loans (principal and interest) from annual business rate income[3]. Current forecasts indicate that there is sufficient income from business rate growth to meet the cost of the loan repayments. However, if there is any reform to the business rate system or changes in the nature of businesses within the 25-year period of Enterprise Zone business rate ringfencing, this could have a negative impact on the income levels.

Level of total reserves

15. 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 2022/23, 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 2022/23, based on the risk assessment is £28.9m.

16. 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.

CIPFA Financial Resilience Index

17. CIPFA's Financial Resilience Index is a comparative analytical tool that is used to support good financial management, providing a common understanding within a council of their financial position. The index shows a council's position

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

on a range of measures associated with financial risk. The index is made up of a set of indicators which take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance.

18. COVID-19 has had an impact on the 2022 resilience index, as the data is obtained from the Revenue Expenditure and Financing England Outturn Report 2020/2021. It should therefore be viewed in the context of this having been a transitional year.

19. The following paragraph comments on the areas in the index where Oxfordshire County Council is indicating a comparatively higher level of financial stress and comments upon the position.

a) Level of Reserves – This indicator measures the current level of earmarked reserves and general balances to the council's net revenue expenditure. In a range of 23% to 69%, Oxfordshire stands at 31%. Within this, the indicator for general balances, Oxfordshire has the 11th highest level out of 36 counties. As referred to at paragraph 15 and 16 above, earmarked reserves are held for specific purposes and an annual assessment of the level held is undertaken to determine their appropriateness.

b) Social Care Ratio – This indicator is the ratio of total spending on adults' and children's social care to net revenue expenditure. The range for County Councils is from 65% to 100%, with Oxfordshire at 89%. It shows that there is less flexibility than in some councils to manage other budgets to meet growing need in demand led services.

c) Fees & Charges to Service Expenditure Ratio – This indicator shows the proportion of fees and charges against the council's total service expenditure. Despite appearing to be at the higher end of the risk scale, Oxfordshire is ranked 20th out of 36 counties and a ratio of 5.9% in a range of 3.8% to 12.9%. Oxfordshire has a high proportion of adults who contribute towards their care compared to some counties, which explains the high ranking.

d) Growth Above Baseline - This indicator is calculated as the difference between the baseline funding level and retained rates income, over the baseline funding level. This is perceived as a risk as, in comparison with many other counties, Oxfordshire's retained income from business rates is high. However, the proposed MTFS assumes all of the growth is lost upon a reset and implementation of funding reforms in 2023/24.

Assurance Statement of the Chief Finance Officer

20. The proposed budget for 2022/23 and Medium Term Financial Strategy to 2025/26 addresses the demand pressures, inflationary rises and impacts of COVID-19 which are expected to continue into the medium term.

21. Whilst the 2022/23 budget is balanced, there remains a gap between estimated spend and funding streams for 2023/24 and beyond. This is solely due to the uncertainty of funding pending the implementation of funding reforms. Therefore, the council needs to maintain focus on financial sustainability and producing a balanced budget over the medium term.

22. The risks in the 2022/23 budget are predominantly in relation to inflation and workforce availability. To help mitigate these risks, the proposed 2022/23 budget includes a contingency of £6.6m.

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

24. The system of financial control remains robust, 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.

25. 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.

26. 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
Director of Finance

31 January 2022