

# **Section 3**

## **Statutory Report by the Director of Finance (Chief Finance Officer)**

## **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. This report concentrates primarily on the level of uncertainty within the budget year (i.e., 2023/24). However, it also considers key medium term risks and issues faced by the Council, particularly around the delivery of savings and the increasing pressures in demand driven services which also informs the need for reserves and balances across the medium term strategy period.

### **Financial management arrangements and control framework**

5. In building the budget and considering the risks inherent within it, it is important to consider the wider control environment which will help to manage and minimise those risks. This includes:
  - the approach to financial planning and monitoring with budget holders
  - a strong accountability framework which sets out clear roles and responsibilities in terms of financial management
  - regular and accurate reporting to Members and senior officers
  - an effective internal audit function assessing controls and processes.
6. These arrangements are considered robust, however it is important for the Council to continue its focus in these areas as weaknesses in these arrangements increase the risk of financial management and governance failures.
7. 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 and 2021/22 are still subject to audit completion.<sup>1</sup>

8. The council's governance arrangements require a statement at the year-end from the 'corporate lead officer' for various key control areas. The Director of Finance has responsibility for ensuring that an effective system of internal control is maintained to provide an assessment of the current position across the whole council and identifying areas for improvement where appropriate. Areas for improvement are included in the Annual Governance Statement and monitored in year via the Audit & Governance Committee.
9. 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 2022/23. The Financial Strategy set out at Section 4.5 sets out a compliance assessment against the Code's standards. 18 standards have been assessed as Green and one standard rated as amber, demonstrating that compliance can be evidenced. Where relevant, proposed further actions that can be taken to support continuous improvement have been included in the assessment for development in 2023/24.

### Current Financial Context

10. The change in the economic and financial climate since the Council set its budget for 2022/23 is unprecedented. The Council has been operating in a climate of uncertainty and volatility alongside increased demand and price pressure during the current financial year and this is expected to continue into 2023/24 and over the medium term.
11. Inflation hit a 40 year high during 2022/23 and a period of high sustained inflation is expected for at least another year. Additionally, COVID-19 has continued to have an impact on our patterns of spend and activity. Some service demands were suppressed during lockdowns, with pent up demand now surfacing, particularly in adults and children's services, alongside new demand caused by the effects of the pandemic. This demand and the expenditure needed to meet it has in many cases been merely delayed, not removed from the system. The economic outlook has also deteriorated in recent months and the on-going impact of high inflation and rising interest rates are forecast to stunt economic growth leading to a recession in 2023. There have been impacts on both the UK's fiscal position and on global supply chains,

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<sup>1</sup> The delays are as a result of a national issue regarding accounting for Infrastructure Assets, for which a statutory override was passed into law in late December 2022

which have materially contributed to unanticipated and significant inflationary pressure. Inflationary pressures alongside the COVID-19 legacy issues are having significant impacts on individual residents, which are resulting in increased demand for council services.

### **Budget Assumptions**

12. The formation of the 2023/24 budget and indicative budgets for the following two 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.
13. The Budget & Business Planning process is well established. All the estimates within the proposed budget are the product of a comprehensive budget process with Cabinet Members, 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 15 below.
14. In forming the estimates various assumptions have been made, the main assumptions together with an assessment of their risk are set out below:
  - a) Funding assumptions – the Government's one year provisional local government financial settlement for 2023/24 and linked Policy Statement for 2023/24 to 2024/25 has given some additional certainty around the future of many general government grants for the next two financial years. However, there remains uncertainty around the future of general government grants from 2025/26 onwards. Additionally, there is no confirmation of how the Social Care grant, Services grant, and other grants announced in the provisional settlement, will be allocated from 2024/25 onwards. This presents risk to the financial stability of the Council, if these grants were to be discontinued, or if the Council's allocation were to reduce.

The introduction of the expected fair funding reforms, which will look at redistribution of government funding to areas of need, does not have a confirmed implementation date. This could result in the Council receiving a reduced level of funding from government in the medium to long-term. The impact of this will remain unknown until further information is provided.

A Council Tax increase of 4.99% is proposed for 2023/24 and 2024/25; the maximum allowable (without a referendum) as confirmed in the Local Government Finance Policy Statement 2023/24 to 2024/25. The rise comprises

a general precept increase of 2.99% and a 2.00% increase in the Adult Social Care precept. The MTFS assumes a 1.99% increase for 2025/26.

Estimates of income from business rates for 2023/24 have been made based on the Settlement Funding Assessment (SFA) and linked Section 31 grant funding as set out in the provisional local government finance settlement along with an estimate of business rates growth above this baseline. The existing MTFS assumed a business rates reset and the loss of growth above the SFA baseline in 2023/24 alongside the implementation of funding reforms. Given there is no date scheduled for a business rates reset, the MTFS assumes the continuation of the growth achieved up to 2023/24 will continue.

The existing MTFS assumed an increase in the taxbase for Band D equivalent properties in 2023/24 of 1.75% which is a return to pre COVID-19 growth assumptions. The actual increase for 2023/24 is 1.99% and the proposed MTFS continues to assume annual increases of 1.75% to 2025/26 which is a reasonable projection.

Surpluses on Council Tax collection funds for 2023/24 continue to reflect the high collection rates seen prior to the pandemic. It was anticipated that the ongoing effect of COVID-19 may impact in 2023/24 and the MTFS assumed a surplus of £4.0m. The actual position is a surplus of £14.1m. Given the growing risk that unemployment rates will rise in 2023 and the risk that residents will come under increased financial pressure and the potential impacts this could have on collection rates, the proposed MTFS continues to assume the collection fund position for 2024/25 and beyond will be a surplus of £4.0m.

- b) Inflation – The OBR expects inflation to peak at 11.1% in Q4 2022, compared with the peak of 8.7% in its March 2022 forecast. The OBR expects inflation to then fall over 2023 to 3.8% in Q4 2023 and to fall below the 2% target by Q2 2024. Inflation then turns negative between Q3 2024 and Q2 2026 as energy and food prices fall. The increase is driven primarily by higher gas prices feeding into sharp rises in domestic energy bills, alongside higher fuel prices and global goods inflation. Whilst inflation is expected to peak during 2022/23, the impact will continue into 2023/24 and beyond. Many of the Council's contracts include inflationary uplifts for the forthcoming financial year based on inflation in the preceding September and October. Furthermore, uplifts in prices agreed in the early part of 2022/23 will not have included the more recent inflation rises which will then factor into costs for 2023/24.

The budget proposals reflect the increase in the National Living Wage, which not only has an impact on the Local Government pay award but also on greater demand for rates increases from contractors. The 2023/24 budget assumes a pay award for all staff groups of 4.5%, however the local government unions have submitted their 2023/24 pay claim for an increase of 12.7%. This increase

would cost £20.0m more than budgeted taking into account the 0.5% allowance included in the contingency budget. Given the 2022/23 pay award was not agreed until late in 2022, it is likely to be well into 2023/24 before the award is agreed.

The budget proposals for 2023/24 include £37.9m for the on-going impact of inflation, including the effect of the increase in the National Living Wage on contracts for social care, for example, as well as higher energy costs.

Given the volatility of inflation and the impact it could have directly on the cost of services, the contingency budget of £8.3m includes an element of funding for a further rise of 0.5% in the Local Government pay award and some allowance for general inflation.

Going forward, with the expectation that the inflation pressure will begin to subside during 2023/24, the MTFs has been set in accordance with the inflationary position set out by the Bank of England with a return to levels close to the Bank's target rate of 2% from 2024/25. It is hoped that this will bring some much-needed economic stability.

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

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

- d) Treasury Management – all existing debt is under fixed interest rates so is not subject to interest rate variation and the MTFs assumes an extension of the strategy to borrow internally. Internal borrowing has the effect of reducing some of the 'cost of carry'<sup>2</sup>. The limit of internal borrowing will be combined with the long term debt lending limit, and will not exceed £380m in 2023/24.

Prudent assumptions have been made regarding the bank rate and target in-house rates of return. The proposed MTFs assumes a return of 3.0% in

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<sup>2</sup> the difference between the interest payable on borrowing on debt and the interest receivable from investing surplus cash

2023/24 (average for the year) reducing to 2.80% from April 2025 and remaining stable for the remainder of the MTFS period.

As at 30 November 2022, the Council had £97m (original purchase value of £101m) invested in external funds, representing 16% of the Council's total investment portfolio. Whilst market volatility has seen the capital value of the funds temporarily decrease from £105m as at 31 March 2022, they are held with a long term view, and there is no intention to divest from any of the funds at present. An estimated return of 3.75% is assumed for 2023/24 compared with a target return on the funds of between 4.00% - 5.00%. Therefore, there is no optimism bias in the income forecasts.

- e) Capital Programme – the proposed Capital Programme has a balanced funding position over the ten-year period to 2032/33. Proposing a programme for ten years allows for a planned approach to the management of assets, services and needs. The total programme of £1.5bn is funded by capital grants, developer contribution, capital receipts and borrowing. Over 50% of the programme is funded by grants. 19% of the programme is funded by borrowing, the full costs of which are built into the revenue budget. The costs of borrowing are 5.0% of the operating budget rising only by 0.2% by the end of the MTFS period and are therefore prudent and affordable.

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

### Financial Risks

15. Given the growing unavoidable pressures and the need to deliver savings, the budget will inevitably contain a degree of financial risk. The key risks are set out in the following paragraphs. However, to help manage the impact of

financial risk, a corporate contingency is held. The proposed level of corporate contingency for 2023/24 is £8.3m. The contingency budget is held to cover;

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

The need to hold a contingency budget has been demonstrated in 2022/23, when it has been used predominantly to meet the cost of the significantly higher than budgeted pay award on an on-going basis.

- a) Achievement of planned savings – the council has a history of good delivery on its planned savings with an average achievement of 91% per year over the last nine years to 2021/22. Progress against delivery of savings during the year is reported to Cabinet as part of the Business Management & Monitoring Report. The report to Cabinet in January 2023 shows that delivery in 2022/23 is not as high as in previous years, with only 74% of savings deemed green or amber. There are further savings in the existing and proposed MTFs which are still to be delivered up to 2025/26 totalling £35.2m, of which £27.6m is planned for 2023/24. Savings plans continue to focus on managing demand, redesign services and income generation. Non delivery of savings impacts on the forecast outturn position and the financial sustainability of the council. Therefore, clear delivery plans will be needed for 2023/24 to ensure slippage does not occur. The Financial Strategy (Section 4.5) sets out the performance target of 95% for achievement of planned savings. Given the history for delivery is around 90%, the contingency budget includes provision for up to 5% non-delivery of planned savings.
- b) Social Care Demand led pressures – There are some budgets where service user 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.

There remains concern over the level of demand for children's social care and a lack of suitable care placements available in the system. There has been an increase in the number of children with complex needs needing higher staff to child ratios and other support who require placements that are not readily available in the market and bespoke packages of care are often extremely high cost. The total number of children we care for (excluding unaccompanied children) rose significantly from September 2021 until August 2022 but has now started to reduce. However, numbers are still higher than at the end of March 2022 and are higher than the 2022/23 budget allows for. Consequently, there



is a significant overspend being reported in 2022/23. The proposed budget for 2023/24 includes an increase in funding of £13.1m. In addition, a Children's Services transformation programme has been put in place to modernise and transform the delivery of services to manage demand and create financially sustainable services.

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. Trends following the COVID-19 pandemic are more difficult than ever to predict, with pressures in hospital discharges potentially putting further pressure on the budgets in the early part of the financial year.

- c) High Needs – in recent years there has been a significant increase in demand in services for children with special educational needs and disabilities. The cost of providing education is met from the Dedicated Schools Grant (DSG). Due to significant increases in the number of out of county placements and increasing numbers of Education, Health and Care Plans, the cost of high needs continues to outstrip the funding available. The forecast deficit compared to DSG funding for High Needs is £17.5m in 2022/23. Action to reduce the expenditure is being taken, but despite this, continued increases in demand mean that annual deficits against the grant funding are expected to grow in future years. Oxfordshire is participating in Phase 1 of the DfE's Delivering Better Value programme. This is a national scheme investing £85m over 3 years for 55 local authorities to help manage High Needs deficits. It is too early to assess whether the programme will identify actions to bring the spend back in line with grant funding available.

The High Needs DSG Reserve has been in deficit since 2018/19 and is expected to be in deficit at the end of 2022/23 by £46.8m. As set out in the Earmarked Reserves and General Balances Policy Statement (Section 4.6), it is expected that the deficit on the reserve will increase over the medium term and could reach a deficit balance of £121.5m by the end of the MTFS period.

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

Beyond the period of the statutory override, the expectation is that the balance on the DSG Unusable Reserve will transfer back to the Council's total

Earmarked Reserves. If this happens, it materially impacts on the overall level of reserves and by 1 April 2026, the total earmarked reserves held by the Council would only be £17.6m putting the financial standing of the council at risk. In this scenario, the council would need to take action to address the position.

- d) 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 BCF funding is expected to increase by 5.6% from the level in 2022/23, the iBCF contribution to funding adult social care is expected remain at 2022/23 levels. In combination, funding for 2023/24 amounts to £40.1m using this assumption. There remains a risk that the level of future funding and the council's access to that may be impacted by national or local changes or changes to the allowed use of the funding.

In December 2020 the government launched its Build Back Better Programme, which included significant charging reforms, the introduction of a care cap, and the completion of a cost of care exercise to be implemented from October 2023. Oxfordshire joined the Trailblazer programme in July 2022 with the aim of delivering early implementation in January 2023. In November 2022 the Government announced a delay to the implementation of reforms until October 2025. However, whilst the majority of the reforms have been paused, the cost of care exercise has not. The cost of care exercise includes a requirement to publish the results, with the cost of care report required to be published by 1 February 2023 and the market sustainability plan by 27 March 2023. Following the delay to reforms, the DHSC have removed the requirement to move towards paying the median rate for the cost of care until October 2025. However, the publication of these documents could result in pressure from providers to begin to pay the median rate sooner, which would result in a significant increase in unit costs and spend on care packages. The Council is anticipating the receipt of the Market Sustainability and Improvement Fund which is provided to make tangible improvements to Adult Social Care (at this stage detailed terms and conditions haven't been published), which may include increasing fees.

The Integrated Care Board for Buckinghamshire, Oxfordshire and Berkshire West was formed on 1 July 2022. At present the organisation is undergoing a forming stage and therefore the longer-term strategic direction and priorities are not yet completely clear, and the full consequences of the changes aren't yet fully understood by either organisation. At present there are no specific known risks as a result of this, but the position needs to be monitored.

- e) Inflation – As set out in paragraph 14b above, volatility in inflation and the impacts on pay, goods and services is expected over the medium term. Whilst sufficient funding is built into the proposed budget for contract inflation increases based on current OBR and market projections, if these rise further,

there may be pressures placed on budgets. Similarly, pay increases for 2023/24 are also based on current assumptions linked to the National Living Wage increases. The contingency budget of £8.3m does provide some protection against this risk.

- f) Workforce availability - Recruitment and retention of staff is a challenge in the majority of local authorities and predictions are that shortages in the public sector workforce will continue over the longer term. This is also the case in Oxfordshire with significant shortfalls in the social care sector, teaching and professional services. To address this situation, the Council has developed and agreed a new strategy to create a high-performance resourcing function improving the Council's ability to attract and retain the right quality and quantity of people to join the Council, building a dedicated workforce for the future. The proposed budget for 2023/24 includes funding of £0.4m per year to manage the transformation programme to deliver the council's resourcing strategy.

Oxfordshire, in common with other authorities across the southeast and nationally, is financially exposed to the fractured national care market for children's placements and the workforce costs driven by recruitment and retention of children's social workers. A new Children's Social Worker Recruitment and Retention Strategy has been developed and agreed which aims to address the significant workforce challenges in children's social care and provide a more resilient and effective service with more manageable caseloads and reducing reliance on agency staff. The proposed budget includes an investment of £0.6m from 2023/24 to implement the strategy.

- g) Major Infrastructure Programmes – the Council has been successful in securing significant funding for a number of major infrastructure programmes. Much of the funding is provided in arrears, after costs have been incurred. Most of the grant funding was negotiated on the premise that it would expedite housing delivery and would be a lever to secure further funding (particularly developer contributions). There are pre-agreed scheme costs, schedules, scope and end dates to claiming grant payments. These conditions increase the financial risk in two regards: delivering schemes within the funding available, given the significant cost pressures and delivering the schemes within the grant funding available.

There are a number of factors increasing the risk to the future deliverability and cost of capital schemes. These are:

- Inflation - the latest estimates indicate that construction inflation is expected to be around 11%. This arises from the global price of energy affecting the cost of materials, especially energy intensive products such as cement and concrete.

- COVID-19 legacy - as global demand increases, supply remains problematic leading to supply chain bottlenecks, slower delivery times, container shortages, port delays etc.
- Post Brexit arrangements - rises in shipping costs, surcharges, and increased administration at UK ports leading to slower delivery times have affected imports.
- Labour Market - a shortage in the labour markets including construction and building trade supervisors, general labourers, civil engineers, bricklayers, carpenters, plant and machine operatives.
- Red Diesel Rebate - the removal of the tax discount on diesel used in construction plant from 1 April 2022 (Red Diesel) has led to an increase in the cost of construction.

To manage this risk, a number of controls and mitigations are in place. These include;

- Programme delivery - value engineering exercises across all schemes to ensure value for money and affordability within a fixed funding envelope; critical path analysis to ensure programmes can be delivered within timeframes;
- Local Programme Management Office - to manage the volume of schemes in the pipeline and provide, for example, technical programme management, risk/assurance management and performance management and a broader partnership function
- The new Strategic Capital Board is in place to ensure the cross council focus and support is in place to capture any issues early and enable the prioritisation of resources and effort where needed.
- Ongoing dialogue with funding bodies such as DLUHC and Homes England takes place to manage funding agreements.
- Programme contingency – there is a 3% contingency in the Capital Programme to meet any unavoidable or unforeseen costs.

### **Level of total reserves**

16. The Earmarked Reserves and General Balances Policy Statement at Section 4.6 sets out the council's policies underpinning the maintenance of a level of general balances and earmarked reserves. As well as holding a contingency budget, general balances are also held to ensure that a major incident or emergency can be managed without impacting on other services. In reaching the decision on the level of balances I feel are appropriate to be held for 2023/24, 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 2023/24, based on the risk assessment is £30.2m.

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

### **Assurance Statement of the Chief Finance Officer**

18. The proposed budget for 2023/24 and Medium Term Financial Strategy to 2025/26 addresses the inflationary rises, demand pressures and the legacy impacts of COVID-19 which are expected to continue into the medium term.
19. Whilst the 2023/24 budget is balanced, along with the budget for 2024/25, there remains a gap between estimated spend and funding streams for 2025/26. There remains uncertainty around the future of general government funding from 2025/26 onwards with the expectation that a real terms cut to local government is probable which presents risk to the financial stability of the Council. Therefore, the council needs to maintain focus producing a balanced budget over the medium term to ensure continued financial sustainability.
20. The risks in the 2023/24 budget are predominantly in relation to inflation. To help mitigate these risks, in addition to £37.9m provided for inflationary pressures, the proposed 2023/24 budget includes a contingency of £8.3m.
21. There is also risk from the continuing increasing demand in the high needs budget which remains under significant pressure in the current financial year and expected to remain so over the medium term.
22. The system of financial control remains 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.
23. I believe the level of the council's total reserves are appropriate and sufficient to provide both general balances to manage the impact of unexpected events in line with the risk assessment; and the setting aside of earmarked reserves to meet known or anticipated liabilities. However, if there is no change in government policy, and the High Needs statutory override ends on 1 April 2026, then there will be insufficient reserves from 2026/27.
24. As Section 151 officer, I can formally report that in my view the budget estimates recommended by the Cabinet are robust and the level of reserves adequate, as required by the Local Government Act 2003.

**Lorna Baxter FCPFA  
Director of Finance**

1 February 2023