

Report to the Cabinet

Meeting to be held on Thursday, 14 January 2021

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Money Matters 2020/21 Position - Quarter 3

(Appendices 'A' - 'C' refer)

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Executive Summary

This report provides an update to Cabinet on the county council's 2020/21 revenue and capital financial position, as at the end of December 2020 and an updated Medium Term Financial Strategy covering the period 2021/22 to 2023/24.

There is ongoing and unprecedented uncertainty in relation to future local government funding and the financial impact of the COVID-19 emergency has exacerbated the problem.

Accordingly significant assumptions are required to underpin our forecasts. While these can be made with a level of confidence in the current year, over the medium term, with limited information, we rely heavily on advice from national bodies, benchmarking and discussion with peers.

Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to COVID-19 and focus on supporting jobs. The Medium Term Financial Strategy at quarter 3 reflects the provisional financial settlement which was announced on 17 December 2020. This provided confirmation of funding announcements made by the Chancellor as part of the Spending Review 2020, however these are subject to consultation and could change as part of the final financial settlement. This included the ability to raise additional council tax through a social care precept and additional funding to support the costs of the COVID-19 pandemic. These changes have had a significant impact on the forecast gap in 2021/22, however it must be noted that many of these changes are non-recurrent and it is likely that there will be longer term pressures within the budget due to the impact of COVID-19 which are difficult to quantify at this stage in the pandemic.

The settlement is for one year only and the figures are expected to be confirmed in late January/early February 2021 within the final settlement announcement.

Whilst the quarter 3 forecast presents an underspend of £7.951m for the current financial year, there remains a level of uncertainty about the longer term impacts of the ongoing pandemic. There will certainly be ongoing impacts relating to the collection fund that force a pressure, currently estimated at £1.7m per annum, into the next three years.

Any latent impact on price or demand for our services also remains unclear.

The current Medium Term Financial Strategy indicates an aggregated funding gap of £53.956m by 2023/24, a decrease of £24.835m from the previously reported position.

In summary:

- (i) The 2020/21 revenue forecast outturn is £836.900m, representing a projected underspend of £7.951m (0.94%) of the agreed budget.
- (ii) The Medium Term Financial Strategy has been updated for our current expectations of levels of funding, savings delivery, demand and inflation.
- (iii) At Cabinet in November 2020 the Medium Term Financial Strategy showed a deficit of £78.791m in 2023/24. The forecast now indicates a financial deficit of £53.956m by 2023/24.
- (iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 3% of net budget, which is unchanged from the previously reported position.
- (v) The council is forecast to hold £159.420m of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap for all of the years covered by the Medium Term Financial Strategy, 2021/22 to 2023/24.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £7.951m on the revenue budget in 2020/21.
- (ii) **Note** the revised funding gap of £53.956m covering the period 2021/22 to 2023/24 as set out in the revised financial outlook forecast for the council.
- (iii) **Approve** the budget adjustments for 2021/22, and following years' changes, included in the revised Medium Term Financial Strategy.
- (iv) **Agree** to make recommendations to Full Council on 11 February 2021 for a

Band D Council Tax for 2021/22 reflecting a 4.99% increase including 3% to be used for adult social care as per the new flexibilities.

(v) **Note** the contents of the county council's reserves position.

(vi) **Note** the revised 2020/21 capital delivery programme of £157.979m and the forecast outturn of £124.772m.

Background and Advice

The detailed reports present the quarter 3 position and are appended as follows:

- Appendix 'A' - the 2020/21 forecast revenue position.
- Appendix 'B' - revised Medium Term Financial Strategy for the period 2021/22 to 2023/24, including reserves position.
- Appendix 'C' - the 2020/21 re-profiled capital delivery programme and forecast outturn.

2020/21 Revenue Position as at 31 December 2020 (Appendix 'A')

A revenue underspend is currently forecast at £7.951m and represents a variance of 0.94% against the overall revenue budget of £844.851m. The forecast outturn position is subject to a number of assumptions around the anticipated profile of expenditure for the rest of the year which, as always, is difficult to predict in some demand led budget areas. The report identifies those areas where forecast pressures exist and will be subject to ongoing detailed review. There are also a number of underspending service areas and where these have been validated as reflecting a level of recurrent underspend these have been picked up as management action savings within the Medium Term Financial Strategy. The focus will remain on continuing to tightly control and drive down costs wherever possible.

The savings that have been agreed to date are also closely monitored, with a total of £51.196m included in in 2020/21. The financial position at the end of quarter 2 has an assessment of c51% of all agreed savings rated as on track. The council's activity in response to COVID-19 has necessarily moved focus away from savings initiatives thereby delaying the impact of the activity and therefore savings needing to be re-profiled in a number of cases.

The Medium Term Financial Strategy and reserves position (Appendix 'B')

The previous updated Medium Term Financial Strategy reported to Cabinet in September a forecast funding gap of £78.791m by 2023/24. The updated funding gap contained within the report has decreased to £53.956m by 2023/24 primarily as a result of the Chancellor's Spending Review 2020 announcement and the provisional settlement.

The value of the uncommitted transitional reserve is currently forecast to be £159.420m by the end of March 2021. This includes the impact of the forecast

underspend within the 2020/21 outturn position. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for financial years 2021/22 - 2023/24, but the intention is to identify further savings, thereby securing a sustainable financial position for the council.

Capital delivery programme for 2020/21 (Appendix 'C')

A 2020/21 capital delivery programme of £133.842m was agreed at Full Council in February 2020. This was based on the best forecast available at that point in time with the need to review and update to reflect the impact of the final 2019/20 outturn position and associated slippage and advance delivery, additions to the programme subsequently agreed by Cabinet and an updated assessment of deliverability within the year.

The review resulted in the 2020/21 capital delivery programme increasing to £149.510m by the end of quarter one and subsequent additions agreed by Cabinet have further increased the delivery programme to £157.979m. Forecast delivery is £124.772m, a variance of £33.207m primarily as a result of slipped delivery with a risk that this will increase over the remainder of the financial year dependent on a number of factors, the most significant being the impact of COVID-19 on resources, supply chain and delivery.

The Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the council's Chief Finance Officer (in the case of the county council the Chief Executive and Director of Resources) on the robustness of the estimates and the adequacy of the council's reserves.

Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the council as a result of the estimates and assumptions which support any budget. The basis of the estimates on which the budget has been prepared, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks arising from changes in the forecast as they occur.

The table below demonstrates the scale of just a small variance in the assumptions made, showing the potential impact of both a positive and negative movement of 1% across the main areas within the Medium Term Financial Strategy:

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.145
Pay (1%)	+/- 2.945
Price Inflation (1%)	+/- 6.197
Demand (1%)	+/- 5.931

A number of specific risks remain within the budget as follows:

- **Government Funding**

On 25 November 2020 the Chancellor announced the Spending Review 2020 (SR20). Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting department's resource and capital budgets for 2021/22 only in order to prioritise the response to COVID-19 and focus on supporting jobs.

The Provisional Settlement was announced on 17 December 2020 and confirmed the funding streams that were included within SR20 and provided more detailed information and allocations for councils.

The Medium Term Financial Strategy contains a best estimate of the funding envelope that the county council expects to achieve over coming years. However, the only information we have in relation to future funding is for 2021/22 and we anticipate the delayed fair funding review, business rates system review and the adult social care green paper to take place soon. This is however dependent upon the duration of the pandemic.

Assumptions have been made that include the continuation of social care grants, improved better care fund and that business rates will change to a 75% share from 2022/23.

As part of the provisional settlement it was confirmed that the maximum increase that we will be able to apply to council tax, without a referendum, will be 1.99%. In addition those authorities with responsibility for adult social care have the ability to raise council tax by an additional 3% through as adult social care precept. It has also been confirmed that this increase can be included within 2021/22, spread over the next 2 years, or indeed the total 3% can be levied in 2022/23.

- **Service Demand**

In 2020/21 we have seen the impact of the pandemic on demand levels, with areas such as nursing and residential care being lower than budgeted, due to a number of factors including lockdown, social distancing measures and the impact of the acute health sector commissioning some residential placements as part of NHS funded scheme to create capacity in hospitals in support of the crisis. Longer term, we do not expect these factors to drive permanent reductions and expect a drift back up in demand as a new normal settles post COVID. It is also anticipated that over the coming months we will see additional demand across our children's services as a result of the pandemic.

In addition to current lower than budgeted demand levels, we have some benefits from the current remote working arrangements with costs such as building occupancy, printing and mileage being reduced.

Over the period 2021/22 to 2023/24 circa £46m has been provided in the Medium Term Financial Strategy for demand pressures of which circa £29m relates to adult

social care and circa £9m children's social care. These have been identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of adult social care). Estimates are based on assumptions that have previously been a reasonable prediction of demand, during the current financial year.

Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and what steps can be taken to mitigate the financial impact, which along with grant funding reductions, is a major contributing factor towards the funding gap reported in the Medium Term Financial Strategy.

- **Pay**

The majority of the pay bill is driven by the national pay agreement and the announcement of a new pay spine represents a significant additional cost pressure reflected in the updated Medium Term Financial Strategy. The county council also remains committed to paying its employees as an accredited member of the Living Wage Foundation.

As part of the Spending Review it was announced that public sector pay would not be increased in 2021/22, however as the pay award will need to go through pay awarding bodies prior to being decided for 2021/22 a pay freeze has not been reflected at this stage.

- **Inflation**

Levels of inflation have fallen due to economic pressures as a result of the pandemic, with the Chancellor confirming that Consumer Price Index is currently 0.5% (September 2020).

Provision made within the budget is limited to areas where the council has no choice but to pay increased prices, e.g. due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation or the need to absorb additional inflationary costs in year.

A particularly significant area is the care market, primarily residential, nursing and homecare, the funding of which is recognised as a significant issue regionally and nationally. A significant amount of resource has been included within the Medium Term Financial Strategy to fund price increases and the estimated impact of the national living wage on care providers.

- **Interest Rates**

The Bank of England, which had held rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% and then swiftly thereafter brought them further down to the record low of 0.1% along with an asset purchase programme to help stimulate the economy. Whilst the central forecast is for Gross

Domestic Product to continue to recover, the county council's treasury advisors expect the Bank Rate to remain at the current 0.1% level for the foreseeable future and that Gilt yields will remain very low in the medium term. Shorter term Gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out a negative Bank Rate or growth/inflation prospects improve.

• **Savings Programme Delivery**

The scale of savings agreed to be delivered over future financial years remains significant with £24.876m currently forecast to be delayed in 2020/21 as a result of refocussing officer priorities to the response to the current pandemic. In addition there are forecast savings of £24.241m to be delivered across 2021/22 and 2022/23.

Should the COVID-19 emergency response continue for a protracted period it is likely that there will be further slippage.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council if those costs are not mitigated by the Government providing additional funding in future years.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. However, there is a strong track record of delivery of the vast majority of previous savings plans and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions where required.

This has been identified as one of the highest level risks in the council's Risk and Opportunity Register and there are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required.

Adequacy of Reserves

The council holds reserves for a number of reasons:

- to enable the council to deal with unexpected events such as flooding or the destruction of a major asset through fire,
- to enable the council to manage variations in the demand for services which cause in year budget pressures, and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- the level of risk evident within the budget as set out above,
- a judgement on the effectiveness of budgetary control within the organisation, and
- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

In relation to the council's general reserve (County Fund Balance), the forecast level at 31 March 2021 is £23.437m. In addition the council is forecast to hold £17m by the end of the financial year as a formal treasury management reserve to reflect that, whilst the council's treasury management performance (covering both investment activity and financing costs) has been positive over an extended period, the outlook post-Brexit is particularly uncertain and volatile. The reserve is there to hedge against that volatility, including interest rate changes and associated risks over the short-term without directly impacting the revenue account.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, by the end of the financial year including the 2020/21 forecast underspend is currently forecast to be £159.420m, and is sufficient to meet the forecast funding gap within the current Medium Term Financial Strategy covering 2021/22 to 2023/24.

The level of risk evident within the budget has been significant in recent years and has been exacerbated by the initial and longer-term impact of the pandemic and the ongoing longer-term uncertainty regarding funding levels. The revenue budget for 2021/22 will need to be supported by reserves with an increasing gap forecast in subsequent years. The transitional reserve allows decisions to be made in a more measured and considered way but does not of itself negate the need for a sustainable budget to be achieved. While the council's budgetary control procedures are strong in terms of managing in year expenditure, the effectiveness of budgetary control is a combination of systems and processes as well as the risk environment within which the council is operating. It therefore remains an essential requirement that the council continues to ensure that processes are effective in maintaining a grip on in year expenditure and also that there is a clear focus on delivering a balanced and sustainable budget.

As part of the Medium Term Financial Strategy report, scenario analysis and stress tests of the current financial gap and reserves position have been undertaken.

Overall, the council has an appropriate level of reserves available to manage the financial risks it is facing from 2021/22 to 2023/24. However, on current forecasts it will be necessary that additional savings are identified to be delivered to bring the council to a financially sustainable position. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

Consultations

Proposals will be subject to appropriate consultation where required.

Implications:

Risk management

The county council's overall approach to managing financial risks continues to be to identify and acknowledge risks early and build their impact into financial plans while continuing to develop strategies which will minimise their impact. This approach

operates in parallel with the identification and setting aside of sufficient resources to manage the financial impact of the change risks facing the organisation.

The financial risks and opportunities that could affect the position outlined in the report primarily cover the following areas. Many of these risks equally present opportunities:

Level of Future Resources from Central Government

Risks remain in relation to the level of resources the council receives from the government in terms of support for the additional pressures as a result of the COVID-19 pandemic, revenue support grant, social care grant, business rates and the fairer funding settlement which has been delayed for a further year. At this point in time there is insufficient detailed information regarding the changes to be certain of the funding assumptions within the Medium Term Financial Strategy. As a result of these uncertainties we have modelled various scenarios on the most likely funding scenario. Future funding levels could therefore be higher or lower than currently forecast.

Demand

There is continued pressure on the council's budget, particularly around adult and children's social care, and the most up to date demand forecasts have been included. Any increase in demand above the current forecast will add additional pressure to future years and conversely reductions in demand will create underspends.

Inflation

A significant level of additional resource has been included in the Medium Term Financial Strategy, primarily on contractual price increases and particularly on social care where there are nationally recognised funding issues in the residential and domiciliary care markets. In addition, the Medium Term Financial Strategy includes estimates of the cost of increases that would enable independent sector providers to meet the additional costs of the national living wage.

Delivery

The Medium Term Financial Strategy assumes that agreed savings including those delayed as a result of COVID-19 will be delivered in the period 2021/22 to 2023/24. There are also a significant number of other factors, both internal and external, which may impact upon delivery and these will need to be clearly identified and either minimised or optimised as appropriate.

Legal

Please note that matters referred to in this financial forecast will be subject to council consideration where appropriate.

List of Background Papers

Paper	Date	Contact/Tel
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None

Reason for inclusion in Part II, if appropriate

N/A