

The County Council's Revenue Budget and Council Tax for 2021/22 and Capital Delivery Programme for 2021/22

1. Introduction

The council has faced an unprecedented period of financial challenge since austerity began in 2010 and, like all councils, we are facing financial pressures across the period of our medium term financial strategy. Whilst good progress has been made to date in addressing the forecast financial shortfall over the strategy period as a result of significant savings programmes and the improved funding envelope for social care, further work is required to ensure the council can achieve a financially sustainable position over the medium term.

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 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 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 than what has been announced to date for 2021/22.

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.

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 MTFS covering the period 2021/22 to 2023/24.

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, which reflect significant uncertainties as to future funding levels, 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.

The medium term financial strategy (MTFS) includes government funding as announced in the provisional settlement on 17th December 2020, and we await the final settlement which is expected on 10th February 2021 with any changes therefore needing to be reported at the Full Council meeting.

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 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 an adult social care precept and additional funding to support the costs of the Covid-19 pandemic. The 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.

As this was a one year settlement in 2021/22, in conjunction with the news that the fair funding review would be delayed until at least April 2022, assumptions have therefore been made based on the provisional finance settlement for funding levels from 2021/22-2023/24.

During 2021, a multi-year spending review will take place which will allow more time for the impact of funding changes to be effectively planned for.

The provisional settlement also confirmed that revenue support grant would continue at 2020/21 inflated amounts, and that the social care funding allocated in 2020/21 would continue into 2021/22.

The MTFS reported to cabinet in January 2021 included a 3% adult social care precept in 2021/22 as a result of flexibilities offered by Government. The Government have confirmed the 3% additional precept can be spread across 2021/22 and 2022/23 if not taken fully in 2021/22.

As the MTFS assumes the full 3% being taken in 2021/22, it is therefore assumed that the maximum increase will revert back to 1.99% from 2022/23 onwards. Council tax increases are subject to a full council decision each year when setting the budget, but any decisions taken not to increase council tax as per the assumptions above would increase the financial gap.

Taking account of updated resources information there will be a relatively small budget surplus of £4.322m in 2021/22 which will result in a contribution to reserves. However, this is clearly dependent on all service challenge savings agreed and delivered fully within the timeframes identified, along with the other savings agreed in previous budget cycles.

There also remains an overall funding gap of £47.591m by 2023/24. Current forecasts indicate that there will be sufficient funds within the transitional reserve to support the identified budget gap through to and beyond 2023/24. However the intention is to identify further savings and thereby reduce any call on the transitional reserve, for 2022/23 and beyond.

This report presents for consideration by the full council the recommendations in relation to:

- The revenue budget for 2021/22;
- A revised capital delivery programme for 2021/22;
- The council tax and precept for 2021/22.

In addition the report sets out the advice of the Chief Executive and Director of Resources, as the council's statutory Chief Finance Officer, on the robustness of the budget and the adequacy of reserves as required by Section 25 of the Local Government Act 2003.

Reports will be provided regularly to cabinet in 2021/22 to update the financial position for the county council based on the latest information.

2. The Budget Process

The county council's approach is driven by a formal requirement to deliver a balanced budget in 2021/22. This needs to be undertaken whilst recognising the position for future years. The cabinet has considered the budget for 2021/22 and future years at a number of its meetings. The reports considered can be found at:

<http://council.lancashire.gov.uk/ieListMeetings.aspx?Committeed=122>

3. The Revenue Budget 2021/22 to 2023/24

The county council's medium term financial strategy (MTFS) was approved by full council in February 2020 covering the 2020/21 budget and the forecast position for 2021/22 to 2023/24. This identified the funding gap in each year as follows:

Table 1

Aggregated Funding Gap	2020/21	2021/22	2022/23	2023/24
2020/21 (£m)	-1.358	-1.358	-1.358	-1.358
2021/22 (£m)		8.121	8.121	8.121
2022/23 (£m)			13.563	13.563
2023/24 (£m)				18.076
Total	-1.358	6.763	20.326	38.401

During 2020/21 cabinet has received a number of MTFS reports that have identified further changes to the expected level of spending and in the anticipated level of resources available for that period including an additional year of 2023/24. The latest MTFS shows a revised spending gap of £47.591m. The profile of the funding gap is shown in Table 2:

Table 2

Aggregated Funding Gap	2021/22	2022/23	2023/24
2021/22 (£m)	-4.322	-4.322	-4.322
2022/23 (£m)		39.356	39.356
2023/24 (£m)			12.557
Total	-4.322	35.034	47.591
Previous position (£m) (January cabinet – Quarter 3)	2.319	41.198	53.956
Variance (£m)	-6.641	-6.164	-6.365

4. The level of resources available to support the 2021/22 revenue budget

The level of resources reflected in the MTFS for 2021/22 and future years is as follows:

Table 3

	2021/22 £m	2022/23 £m	2023/24 £m
Revenue Support Grant	33.615	34.220	34.904
Business Rates	202.816	205.420	209.278
Council Tax	545.355	561.770	582.689
New Homes Bonus	2.416	1.645	0.809
Improved Better Care Fund	45.532	45.532	45.532
Social Care Support Grant	41.943	41.943	41.943
Collection Fund	-0.197	-0.619	-0.619
Capital Receipts	4.000	0.000	0.000
Local Council Tax Support Grant	11.479	0.000	0.000
Total	886.959	889.911	914.536

As the final settlement has not been announced, these figures reflect the provisional settlement and have been adjusted for the impact of the final council tax base figures and surplus and deficit position (across council tax and business rates collection funds) as discussed below.

4.1 The resources received through the local government finance settlement

The Secretary of State announced the provisional local government finance settlement on 17th December 2020, and at the time of writing the final settlement has not been announced. This is expected in early February. It is important to note that the settlement only covers one year (2021/22), therefore assumptions have been made for 2022/23 onwards. As part of the announcement of the provisional settlement the secretary of state could not provide certainty at this stage of the revised date that the fair funding formula and changes to the business rates system will take place due to the ongoing impact of the pandemic. Therefore, details of the scheme and the impact on Lancashire are not known at this stage.

4.2 Council Tax in 2021/22

On 14th January 2021 a report was presented to cabinet recommending that Band D council tax for 2021/22 has a 4.99% increase, including 3% to be used for the adult social care precept. The council tax figures within the MTFS include the impact of a 4.99% increase in council tax in 2021/22, 1.99% increase in 2022/23 and 2023/24.

There is a requirement for section 151 officers in those authorities levying the adult social care precept to provide information demonstrating that an amount equivalent to the additional council tax has been allocated to adult social care. Any proposals for a council tax increase above these thresholds will be subject to a referendum.

As part of the budget setting process district councils must confirm both the council tax base and the surplus/deficit on the collection fund by 31st January 2021. The information provided by district councils has resulted in a tax base decrease of 0.04% for 2021/22. This is an improved position compared to the estimate built into the MTFS at quarter 3 and therefore results in an increased level of funding of £5.233m in 2021/22. The tax base growth for Lancashire in previous years has generally been between 1% - 2%, however due to the impact of the pandemic and the increased application of the council tax support scheme the tax base is lower. The Government has compensated authorities for their losses in both 2020/21 and 2021/22 through supporting grants. The budget for 2021/22 includes an estimate of the funding that is expected to be received, however this will not be confirmed until later in the financial year.

The growth for future years within the MTFS has been forecast at 1% in 2022/23 and 1.7% in 2023/24 as it is anticipated that post pandemic tax bases will start to return to previous years' growth levels, however this will be kept under review with district councils.

As part of the budget setting process district councils must confirm the surplus/deficit on the council tax collection fund by 31st January 2021. The information received from district councils states a deficit position on the council tax collection fund of £2.689m. However, as part of the provisional settlement, the Government will provide funding to support 75% of irrecoverable losses in 2020/21 that can be spread over 3 years. Therefore as part of the MTFS we have reduced the impact in each of the next 3 years by 75% of the 2020/21 deficit, resulting in a revised council tax collection fund deficit of £1.293m in 2021/22 and £0.466m in both 2022/23 and 2023/24. This is our best estimate based on our current understanding, having sought advice from professional advisors, of how the financial support calculation will work.

4.3 Business Rates in 2021/22

From 2013/14 an element of the county council's funding is received from the locally retained element of business rates collected by the district councils. It is estimated that the county council will receive funding of £202.816m from business rates. The County Council will be part of the Lancashire Business Rates Pool in 2021/22, but as yet the budget does not include a contribution/benefit from the pool due the inherent uncertainty and risk in relation to business rates during the pandemic.

As part of the budget setting process district councils must confirm the surplus/deficit on the business rates collection fund by 31st January 2021. The information received from district councils state that a deficit has been achieved on the business rates collection fund of £12.528m. In order to support this significant pressure the Government has provided additional funding (currently to District Councils, but we anticipate this will be passported to precepting authorities) to offset the 2020/21 pressure on business rates collection fund. Following submission of data from District Councils as part of their statutory returns we are forecasting to receive £13.165m in grant. In addition, as part of the provisional settlement, the Government will provide funding to support 75% of irrecoverable losses in 2020/21 that can be spread over 3 years. Therefore as part of the MTFS we have reduced the impact in each of the next 3 years by 75% of the 2020/21 deficit, resulting in a revised business rates collection fund surplus of £1.096m in 2021/22 and a deficit of £0.153m in both 2022/23 and 2023/24. This is our best estimate based on our current understanding, having sought advice from professional advisors, of how the financial support calculation will work.

4.4 Capital receipts

In previous years the use of capital receipts (income derived from the sale of long term assets) has been restricted to funding capital expenditure or the repayment of debt. However, from 1st April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria. To meet the qualifying criteria the revenue expenditure needs to relate to activity which is designed to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of service provision. The flexibility was extended with the final year of permitted flexibility being 2021/22.

Local authorities will only be able to use capital receipts from the sale of property, plant and equipment received in the years in which this flexibility is offered. They may not use their existing stock of capital receipts to finance the revenue costs of service reform.

The current estimates of the capital receipts to be generated, and utilised in supporting revenue expenditure total £4.000m, and are included within the 2021/22 budget. This is one-off one year funding as this is the final year of this accounting flexibility.

The actual receipts received in any one year will fluctuate in line with local property markets and the type of asset available for sale. Therefore, there is a risk that in any given year the receipts actually received will be less than assumed and therefore the situation will be monitored closely.

The capital receipts in 2021/22 will be applied to the following areas (shown in Table 5) to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

Table 4

Service Area	Value (£m)
Business Intelligence	0.023
Children's Social Care	1.310
Disability Services (Adults)	0.592
Exchequer Services	0.309
Financial Management (Development and Schools)	0.082
Learning Disabilities, Autism & Mental Health	0.117
Organisational Development	0.659
Safeguarding and Quality Improvement Services	0.090
Social Care Services (Adults)	0.818
Grand Total	4.000

At full council in February each year the county council's prudential indicators are reviewed and approved. As part of the treasury management strategy, that is requesting approval at this full council meeting, the level of indicators incorporate the budgeted level of capital receipts that will be used to support the revenue budget rather than the capital delivery programme. The indicators are reviewed on a regular basis and reported to members on a quarterly basis.

4.4 Specific Grants and contributions to be received by the County Council in 2021/22

The following table summarises the more significant specific grants to be received by the council in 2021/22:

Table 5

Grant	Estimated Allocation 2021/22 £m	Description
Improved Better Care Fund	47.8	The Better Care Fund is a pooled budget to help improve the integration of health and care services.
Public Health	69.6*	Ring fenced funding only able to be spent in accordance with the conditions of the grant.
COVID-19 Expenditure Pressures Grant	26.0	To cover any COVID-related costs in 2021-22.

** Public Health Grant allocations announced in March – estimated allocation based on 2020/21 grant awarded*

4.5 Reserves

The latest reserves position agreed by Cabinet is shown in Table 6 this includes the impact of the forecast revenue outturn.

Table 6

Reserve Name	Opening balance 2020/21	2020/21 Forecast Exp	2020/21 Forecast transfers to/from other reserves	2020/21 Forecast Closing Balance	2021-22 Forecast Exp	2022-23 Forecast Exp	Forecast closing balance 31 March 2023
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
SUB TOTAL - COUNTY FUND	-23.437	0.000	0.000	-23.437	0.000	0.000	-23.437
Strategic Investment Reserve	-5.819	-1.292	1.979	-5.132	3.319	0.812	-1.001
COVID-19 Reserve	-33.961	33.961	0.000	0.000	0.000	0.000	0.000
Downsizing Reserve	-5.642	0.000	0.000	-5.642	2.821	2.821	0.000
Risk Management Reserve	-1.935	0.000	0.000	-1.935	0.876	1.059	0.000
Transitional Reserve	-151.199	-7.862	-0.359	-159.420	0.494	0.199	-158.727
Service Reserves	-18.201	1.391	-1.966	-18.776	17.042	0.459	-1.275
Treasury Management Reserve	-11.597	-5.403	0.000	-17.000	0.000	0.000	-17.000
SUB TOTAL - LCC RESERVES	-228.354	20.795	-0.346	-207.905	24.552	5.350	-178.003
Non-LCC Service Reserves	-16.305	1.258	0.346	-14.701	1.677	0.257	-12.767
SUB TOTAL - NON LCC RESERVES	-16.305	1.258	0.346	-14.701	1.677	0.257	-12.767
GRAND TOTAL	-268.096	22.053	0.000	-246.043	26.229	5.607	-214.207

The county fund shown at the top of table 6 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In

considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m.

The value of the uncommitted transitional reserve is currently forecast to be £158.727m by the end of March 2023 providing there is no requirement for structural funding support from reserves to the 2021/22 or 2022/23 budgets (however this is not the current forecast).

The transitional reserve is forecast to be sufficient to meet the identified funding gaps through to and beyond 2023/24 as set out in table 6. However, the intention is to identify further savings to reduce the gap, and hence the call on reserves, in the future.

Table 7

	2021/22	2022/23	2023/24
Opening Balance	159.420	163.248	128.015
Gap funding	-4.322	35.034	47.591
Commitments	0.494	0.199	0.000
Closing balance	163.248	128.015	80.424

5. The Overall Revenue Budget Position for 2021/22

5.1 Summary of revenue budget proposals

A report was presented to Cabinet In January including the medium term financial strategy and proposed revenue budget for 2021/22. The position presented to cabinet and the potential changes are set out in Table 8.

The table reflects the following:

- impact of further cost pressures;
- changes in the level of resources that are currently known;
- a council tax increase of 4.99% in 2021/22; and
- the provision of estimated figures by the city and borough councils in respect of council tax base and business rates income.

Table 8

		2021/22 £m	2022/23 £m	2023/24 £m	Total £m
Spending Gap as reported to Cabinet quarter 2		50.368	13.186	15.237	78.791
Add change to forecast of spending:					
Pay & Pensions		2.058	-0.854	-0.982	0.222
Inflation and Cost Changes		-2.538	0.141	-0.739	-3.136
Service Demand and Volume Pressures		3.521	-1.313	-0.851	1.357
Other		22.252	-18.690	0.000	3.562
Additional Grant		-28.694	28.621	0.000	-0.073
Undeliverable Savings		0.370	0.000	0.000	0.370
Additional Savings		-6.065	-0.288	0.000	-6.353
Reprofiled Savings		0.247	-0.507	-0.299	-0.559
Covid Impact/Pressures		-1.343	0.388	0.624	-0.331
Total Change to Forecast of Spending		-10.192	7.498	-2.247	-4.941
Change to forecast of resources:					
Funding		-37.857	18.195	-0.232	-19.894
Total Change to Forecast of Resources		-37.857	18.195	-0.232	-19.894
Funding Gap reported to Cabinet 14th January (Quarter 3)		2.319	38.879	12.758	53.956
Funding Update		-7.633	0.477	-0.201	-7.357
Expenditure Update		0.992	0.000	0.000	0.992
Revised Funding Gap		-4.322	39.356	12.557	47.591

5.2 Revenue Budgets for Services in 2021/22

The budget outlined below results in a net revenue budget of £886.959m. The budget by service is summarised below:

Table 9

Revenue Budget 2021/22	Net Budget £m
Adult Services	376.740
Adult Services and Public Health and Wellbeing	7.547
Chief Executive Services	3.545
Children's Social Care	162.705
Corporate Services	21.286
Education and Skills	55.811
Finance Services	17.774
Growth, Environment and Planning	6.164
Waste Management	69.398
Highways and Transport	71.015
Organisational Development and Change	2.042
Public Health and Wellbeing	-4.923
Strategy and Performance	63.076
Sub-Total	852.180
Financing Charges	30.457
Available Resources	4.322
Revenue budget 2021/22	886.959

6. The Capital Delivery Programme

This section of the report sets out the following:

- An outline of the 2021/22 capital delivery programme including known projects.
- A summary of the proposed funding of the 2021/22 capital delivery programme.
- An indicative capital delivery programme for the 2 further years 2022/23 and 2023/24.

6.1 Capital Delivery Programme for 2021/22 to 2023/24

Table 10 below details a summary of the proposed capital delivery programme for 2021/22 subject to amendments following year-end together with indicative programmes for the further two years.

The proposals for 2021/22 include the provisions to complete works already in the programme, those already approved for inclusion, and those identified for utilising the anticipated capital grant funding to be received in 2021/22 and for which programmes will be developed in the delivery programme in April 2021 when the position for 2020/21 is finalised.

The proposals for 2022/23 and 2023/24 are indicative based on the likely grant funding to be received and will be further developed through 2021/22.

Table 10

Service Area	2020/21 Forecast £m	2021/22 Delivery Plan £m	2022/23 Delivery Plan £m	2023/24 Delivery Plan £m
Schools (excl DFC)	18.404	21.909	22.925	22.418
Schools (DFC)	3.140	2.247	2.365	2.360
CYP	1.436	3.628	0.457	0.000
Highways	43.190	43.970	9.135	0.395
Transport	12.982	13.665	20.866	17.385
Externally Funded	8.266	5.430	0.276	0.264
Waste and other	0.000	0.000	0.000	0.000
Adults	16.640	15.087	15.193	14.731
Corporate	7.533	11.071	15.238	4.600
Economic Development	9.181	16.160	21.338	6.000
Vehicles	3.000	4.924	3.000	0.000
Transforming Cities Fund	1.000	14.348	25.198	2.428
Total	124.772	152.439	135.991	70.581

The programmes and projects within the above blocks will be developed fully at the start of the new year and programme detail where required will be taken to cabinet for approval. The delivery programme includes an increased budget of £2.5m for the development at Bowgreave Rise. Cabinet on 3rd September 2020 gave approval to the outline proposals for the procurement, funding, delivery and operation of a residential care home and extra care scheme at Bowgreave, following a statutory consultation process. The original Cabinet report referred to a very high level cost estimate of £5.5m for the care home element of the proposals. Whilst the outcome of the submitted planning application is awaited, the detailed design continues to be developed to ensure continuity of programme. Through the design process and initial market testing of the works packages, the cost estimates are continually being refined with the result that the budget needs to be increased by £2.5m to £8.0m. This increase includes ongoing impacts of both Covid and EU exit, whilst cost saving options will continue to be explored.

6.2 Proposed Funding

The capital delivery programme is currently funded by a variety of funding streams, the funding by block for each of the 3 years is shown below and the revenue budget implications for financing charges are reflected within the medium term financial strategy:

Table 11

Funding Source	2021/22 Delivery plan £m	2022/23 Delivery Plan £m	2023/24 Delivery plan £m
Borrowing	74.724	83.144	49.883
Grant	70.141	51.467	19.929
Contributions	7.574	1.380	0.769
Totals	152.439	135.991	70.581

7. Council Tax 2021/22

Full council is advised that the council tax requirement is that the band D council tax for 2021/22 be increased by 4.99% which includes the 3% social care precept. The impact of these increases are:

Table 12

	Band D Council Tax	Council Tax income
Adult Social Care Precept increase at 3%	£42.01	£15.583m
General Council Tax increase at 1.99%	£27.87	£10.338m

The overall position is summarised as follows:

Table 13

	£m
Budget Requirement	886.959
Less Revenue Support Grant	33.615
Less Business Rates	202.816
Less New Homes Bonus	2.416
Less Improved Better Care Fund	45.532
Less Social Care Grant	41.943
Less Collection Fund Deficit	-0.197
Less Local Council Tax Support Grant	11.479
Less Capital Receipts	4.000
Equals council tax cash	545.355
Divided by tax base	370,939.32
Gives Band D council tax for 2021/22	£1,470.20
2020/21 council tax	£1,400.32
Percentage increase	4.99%

8. 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 MTFS:

	Potential Full - Year Impact (£m)
Funding - Council Tax (1%)	+/- 5.197
Pay (1%)	+/- 2.950
Price Inflation (1%)	+/- 6.197
Demand (1%)	+/- 5.931

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

- **Government Funding**

On 25th November 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 17th December 2020 and confirmed the funding streams that were included within SR20 and provided more detailed information and allocations for councils.

The MTFS 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 an 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 c£48m has been provided in the MTFS for demand pressures of which c£29m relates to adult social care and c£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 MTFS.

- **Pay**

The majority of the pay bill is driven by the national pay agreement and the announcement of a new pay spine in 2020/21 which represented a significant additional cost pressure reflected in previous MTFS. 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 CPI 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 MTFS 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 expects 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 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 MTFS 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 MTFS 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.