

# **The County Council's Revenue Budget and Council Tax for 2022/23**

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## **1. Introduction**

The council has faced extreme financial challenge since the onset of austerity measures in 2010. This has been exacerbated by two years of the COVID 19 pandemic, and, like all councils, we are facing financial pressures across the period of our medium-term financial strategy. Whilst satisfactory progress has been made to date in addressing the forecast financial shortfall over the strategy period due to 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.

During the second year of the pandemic, originally planned savings have further been delayed particularly around social care. Timescales for savings plans have been revisited and reprofiled and now will be delivered in 2022/23 and beyond. Due to significant amounts of National Government support during 2021/22, and mitigating savings delivered on a one-off basis, the forecast 2021/22 year-end position is positive, alongside a more favourable financial settlement for 2022/23 than had originally been anticipated which has resulted in an improved MTFS position over the next three years. However, there are inherent risks, the impact of latent demand for services due to the pandemic, inflationary pressures due to the changing economic environment and savings delivery which are largely linked to reducing the future demand for services. There has been a strong track record of delivery of previous savings plans, with some being overachieved and arrangements are in place to track delivery of financial savings and take corrective actions when 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 2021/22 forecast underspend is currently forecast to be £211.750m, an increase of £7.30m due to recent confirmation from district councils of a greater level of income from business rates being received in 2021/22 than originally budgeted and increasing the 2021/22 forecast underspend. The value of the transitional reserve is sufficient to meet the forecast funding gap within the current MTFS covering the period 2022/23 to 2024/25.

Given the pressures arising from the ongoing pandemic, a formal service challenge process was not adopted in 2021/22 for delivery in 2022/23. Existing savings plans were reviewed and reprofiled where necessary and some service areas were able to identify additional income generation and efficiency plans which have been factored into the Medium-Term Financial Strategy (MTFS) and 2022/23 budget.

It should be noted that a further targeted service challenge review process will be undertaken as part of the 2023/24 budget process, as it is necessary that additional

savings are identified to be delivered to ensure the council has a financially sustainable position going forward. Any utilisation of remaining reserves should support, wherever possible, activities which reduce ongoing revenue costs.

The MTFs includes government funding as confirmed in the final settlement published on 7<sup>th</sup> February along with final taxbase information.

Whilst a multi-year Spending Review was initially announced, only a one-year finance settlement for 2022/23 was subsequently provided so there are still some unknowns for future years. The provisional settlement provided confirmation of funding announcements made by the Chancellor as part of the Spending Review in October 2021 and resulted in the provisional settlement allocations announced on the 16<sup>th</sup> December 2021, which have now been confirmed in the final settlement announced on the 7<sup>th</sup> of February 2022 and are reflected within the figures in this report. The settlement again included the ability to raise additional council tax through an adult social care precept of 1%. The major movements within the settlement have been an improvement in the Social Care Grant from £42m to £57m, an increase of £15m. We are also due to receive a new 2022/23 General Services Grant of £13.06m. In addition, we have received funding for market sustainability and the fair cost of care of £3.725m for 2022/23.

As there is only detail in the settlement for one year, assumptions have therefore been made based on the 2022/23 finance settlement for funding levels from 2023/24-2024/25.

The settlement also confirmed that revenue support grant would continue at 2021/22 inflated amounts, and that the social care funding allocated in 2021/22 would continue into 2022/23 at the value reported above

The MTFs reported to cabinet in January 2021 included the ability to raise a 3% adult social care precept in 2021/22 as a result of flexibilities offered by Government. The Government have confirmed that any of the 3% additional precept not yet used can be applied in 2022/23.

As the 2021/22 budget was agreed with 2% of the 3% allowable Adult Social Care Precept being taken it is therefore assumed that the Council tax increase for 2022/23 will include the 1.99% maximum general increase allowed without being subject to a referendum, the 1% Adult Social Care precept deferred from 2021/22 and the newly announced additional 1% again for Adult Social care. 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 forecasting information there will be an anticipated revenue underspend of £30.76m in 2021/22 which will result in a contribution to reserves, and has been taken account of within the current MTFS. This position has improved since quarter 3 by £7.300m due to compensatory S31 monies due to be received in relation to business rate reliefs provided to local businesses throughout the pandemic.

There also remains an overall funding gap of £41.330m by 2024/25. Current forecasts indicate that there will be sufficient funds within the transitional reserve to support the identified budget gap through and beyond 2024/25. However, the intention is to identify further savings and thereby reduce any call on the transitional reserve, for 2023/24 and later years.

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

- The revenue budget for 2022/23;
- A revised capital delivery programme for 2022/23;
- The council tax and precept for 2022/23.

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 2022/23 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 2022/23. This needs to be undertaken whilst recognising the position for future years. The cabinet has considered the budget for 2022/23 and future years at a number of its meetings.

## **3. The Revenue Budget 2022/23 to 2024/25**

The county council's medium term financial strategy (MTFS) was approved by full council in February 2021 covering the 2021/22 budget and the forecast position for 2022/23 to 2023/24. This identified the funding gap in each year as follows:

**Table 1**

<b>Aggregated Funding Gap</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
<b>2021/22 (£m)</b>	3.860	3.860	3.860
<b>2022/23 (£m)</b>		33.635	33.635
<b>2023/24 (£m)</b>			12.553
<b>Total</b>	<b>3.860</b>	<b>37.495</b>	<b>50.048</b>

During 2021/22 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 2024/25. The latest MTFs, shows a revised spending gap of £41.330m. The profile of the funding gap is shown in Table 2:

**Table 2**

<b>Aggregated Funding Gap</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>2022/23 (£m)</b>	13.340	13.340	13.340
<b>2023/24 (£m)</b>		17.200	17.200
<b>2024/25 (£m)</b>			10.800
<b>Total</b>	<b>13.340</b>	<b>30.550</b>	<b>41.330</b>
<b>Previous position (£m) at Quarter 3</b>	21.690	35.720	42.830
<b>Variance (£m)</b>	<b>-8.350</b>	<b>-5.180</b>	<b>-1.5000</b>

#### **4. The level of resources available to support the 2022/23 revenue budget**

The level of resources reflected in the MTFs for 2022/23 and future years is as follows:

**Table 3**

	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
<b>Revenue Support Grant</b>	34.630	35.360	36.170
<b>Business Rates</b>	215.250	215.260	218.000
<b>Council Tax</b>	571.190	598.270	626.620
<b>New Homes Bonus</b>	2.470	1.630	1.630
<b>Improved Better Care Fund</b>	47.150	47.150	47.150
<b>Social Care Support Grant</b>	57.100	57.100	57.100
<b>Collection Fund</b>	1.260	2.000	3.000
<b>Capital receipts</b>	6.000	2.000	2.000
<b>2022/23 Services Grant</b>	13.060	13.060	13.060
<b>Total</b>	<b>948.110</b>	<b>971.830</b>	<b>1,004.630</b>

The final council tax base and collection fund figures (across council tax and business rates) have now been confirmed by the district councils and are reflected in the table above

#### *4.1 The resources received through the local government finance settlement*

The Secretary of State confirmed the final local government finance settlement for 2022/23 on 7<sup>th</sup> February 2022.-. It is important to note that the settlement only covers one year (2022/23), therefore assumptions have been made for 2023/24 onwards. As part of the announcement of the provisional settlement the current expectation is that the new funding formula and Business Rate changes will be implemented from 2023/24 with consultation to be undertaken during the year and so we await further information and guidance. The MTFs does not reflect any potential impact for these changes.

#### *4.2 Council Tax in 2022/23*

Within the settlement for 2022/23, there was an additional increase in the council tax precept flexibility of 1% for Adult Social Care. It was also confirmed that for 2022/23 a council tax increase of 1.99% can be applied without the need for a referendum. 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 would be subject to a referendum. The Government have also confirmed that any of the 3% additional precept not used in 2021/22 can be applied in 2022/23.

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 31<sup>st</sup> January 2022. An increase of c1.7% has been confirmed for tax base in 2022/23, which is an improvement on the 1.5% increase forecast resulting in a £1.050m forecast increase in council tax in 2022/23.

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

The council tax collection fund position has been confirmed as a surplus of £6.750m.

### *4.3 Business Rates in 2022/23*

Since 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. The council will receive funding of £215.250m from business rates in 2022/23, which includes receiving £0.630m through being a member of the Lancashire Business Rates Pool as the agreed share of additional retained business rates resulting from the arrangements. This has improved by £5.450m from quarter 3 largely due to increased levels of S31 grant as a result of covid reliefs being given to local businesses.

As part of the budget setting process district councils did confirm the surplus/deficit on the business rates collection fund by 31st January 2022. The business rates collection fund position has been confirmed as a deficit of £5.490m

### *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 1<sup>st</sup> 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 for the year 2022/23.

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 included in the MTFS to support revenue expenditure total £6.000m using the allowed flexibility. All remaining capital receipts will be used to support the capital programme to deliver the investment required to support the capital strategy.

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 received will be less than assumed and therefore the situation will be monitored closely.

The capital receipts in 2022/23 will be applied to the following areas (shown in Table 4) to generate ongoing revenue savings or to transform a service which results in revenue savings or improvements in the quality of provision.

**Table 4**

<b>Service Area</b>	<b>Value (£m)</b>
Organisational Development	0.750
Social care Adults – New ways of working	2.750
Legal and Democratic	0.250
Children's Social Care	0.140
Highways- new developments	1.500
Adults – Supported Housing	0.110
Exchequer Services	0.500
<b>Grand Total</b>	<b>6.000</b>

At full council in February each year the county council's prudential indicators are reviewed and approved. As part of the treasury management strategy, (Appendix D) 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 2022/23*

The following table summarises the more significant specific grants to be received by the council in 2022/23:

**Table 5**

<b>Grant</b>	<b>Allocation 2022/23 £m</b>	<b>Description</b>
Improved Better Care Fund	54.940	The Better Care Fund is a pooled budget to help improve the integration of health and care services.
Public Health	72.220	Ring fenced funding only able to be spent in accordance with the conditions of the grant.

#### *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 2021/22	2021/22 Forecast Expenditure	2021/22 Forecast transfers to/from other reserves	2021/22 Forecast Closing Balance	2022-23 Forecast Exp	2023-24 Forecast Exp	2024-25 Forecast Exp	Forecast closing balance 31 March 2025
	£m	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.440	0.000	0.000	-23.440	0.000	0.000	0.000	-23.440
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.440</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.440</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.440</b>
Strategic Investment Reserve	-4.810	-1.480	2.360	-3.930	2.810	0.100	0.000	-1.020
COVID-19 Reserve	-11.910	1.730	0.000	-10.180	8.770	1.140	0.270	0.000
Downsizing Reserve	-5.640	1.410	0.000	-4.230	1.410	1.410	1.410	0.000
Risk Management Reserve	-6.290	5.190	0.000	-1.100	1.000	0.000	0.000	-0.100
Transitional Reserve	-201.760	-9.930	-0.060	-211.750	23.040	5.520	2.650	-180.540
Business Rates Volatility Reserve	-5.000	0.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-72.150	36.030	0.000	-36.120	23.090	6.490	5.190	-1.350
Treasury Management Valuation Reserve	-13.780	13.780	0.000	0.000	0.000	0.000	0.000	0.000
Treasury Management Reserve	-15.400	0.000	0.000	-15.400	0.000	0.000	0.000	-15.400
<b>SUB TOTAL - LCC RESERVES</b>	<b>-336.740</b>	<b>46.730</b>	<b>2.300</b>	<b>-287.710</b>	<b>60.120</b>	<b>14.660</b>	<b>9.520</b>	<b>-203.410</b>
Non-LCC Service Reserves	-16.200	0.420	0.000	-15.780	0.420	1.690	0.100	-13.570
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-16.200</b>	<b>0.420</b>	<b>0.000</b>	<b>-15.780</b>	<b>0.420</b>	<b>1.690</b>	<b>0.100</b>	<b>-13.570</b>
<b>GRAND TOTAL</b>	<b>-376.380</b>	<b>47.150</b>	<b>2.300</b>	<b>-326.930</b>	<b>60.540</b>	<b>16.350</b>	<b>9.620</b>	<b>-240.420</b>

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 £23.440m.

The value of the uncommitted transitional reserve is currently forecast to be £180.540m by the end of March 2025 providing there is no requirement for structural funding support from reserves to the 2023/24 or 2024/25 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 2024/25 as set out in table 7. However, the intention is to identify further savings to reduce the gap, and hence the call on reserves, in the future.



**Table 7**

	2022/23	2023/24	2024/25
	£m	£m	£m
<b>Opening Balance</b>	211.750	188.710	152.650
<b>Gap funding</b>	13.340	30.540	41.330
<b>Commitments</b>	9.700	5.520	2.650
<b>Closing balance</b>	<b>188.710</b>	<b>152.650</b>	<b>108.670</b>

## 5. The Overall Revenue Budget Position for 2022/23

### 5.1 Summary of revenue budget proposals

A report was presented to Cabinet in February 2022 including the medium-term financial strategy. The position presented to cabinet and the subsequent changes are set out in Table 8.

The table reflects the following:

- Confirmed changes in the level of resources that are currently known;
- a council tax increase of 3.99% in 2022/23; and
- confirmed figures by the city and borough councils in respect of council tax base and business rates income.

**Table 8**

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
<b>Spending Gap as reported at Q2</b>	<b>30.470</b>	<b>15.830</b>	<b>12.260</b>	<b>58.560</b>
Add change to forecast of spending:				
Pay & Pensions	8.090	1.040	0.210	<b>9.340</b>
Inflation and Cost Changes	10.590	3.270	0.190	<b>14.050</b>
Service Demand and Volume Pressures	13.450	6.550	-0.560	<b>19.440</b>
Other	7.730	9.760	1.530	<b>19.020</b>
Additional Grant	-3.730	-7.450	0.000	<b>-11.180</b>
Loss of Specific Grant	0.000	0.000	0.000	<b>0.000</b>
Undeliverable Savings	0.000	0.000	0.000	<b>0.000</b>
Additional Savings	-11.000	0.000	0.000	<b>-11.000</b>
Reprofiled Savings	8.500	-8.500	0.000	<b>0.000</b>

<b>Total Change to Forecast of Spending</b>	<b>33.630</b>	<b>4.670</b>	<b>1.370</b>	<b>39.670</b>
Change to forecast of resources:				
Funding	-42.410	-6.470	-6.520	<b>-55.400</b>
<b>Funding Gap reported to Cabinet 3<sup>rd</sup> February 2022 (Quarter 3)</b>	<b>21.690</b>	<b>14.030</b>	<b>-7.110</b>	<b>-42.830</b>
<b>Funding Update</b>	<b>-8.350</b>	<b>3.170</b>	<b>3.680</b>	<b>-1.500</b>
<b>Funding Gap</b>	<b>13.340</b>	<b>17.200</b>	<b>10.790</b>	<b>41.330</b>

Following confirmation of final settlement figures, council tax and business rates figures from the district councils, the level of forecast resources in 2022/23 has increased. The breakdown of which is shown in the table below:

**Table 9**

	<b>£m</b>
Revenue Support Grant	-0.030
Business Rates	5.450
Council tax	1.050
Collection fund	1.880
<b>Increase in resources</b>	<b>8.350</b>

Revenue Support Grant has been confirmed as slightly lower than the figure originally given in the provisional settlement.

Business Rates increased overall from the amount built in to the MTFs at quarter 3. The local share element of the business rates dropped by c£2.2m from the amount forecast at quarter 3, following submission of the NNDR 1 forms by the district councils. However, the business rates position overall improved due to extra Section 31 grant c£7m being confirmed along with £0.630m we are forecast to receive as part of the Lancashire Business Rates Pool.

Council tax base increased by 1.7%\_providing an extra £1.050m in 2022/23.

The collection fund position improved from quarter 3 by £1.880m as shown in the table below:

**Table 10**

	<b>£m</b>
Council tax collection fund	6.750
Business rates collection fund	-5.490
<b>Net collection fund</b>	<b>1.260</b>
<b>Position at quarter 3</b>	<b>-0.620</b>
<b>Variance</b>	<b>1.880</b>

## 5.2 Revenue Budgets for Services in 2022/23

The budget outlined below results in a net revenue budget of £948.110. The budget by service is summarised below:

**Table 11**

<b>Revenue Budget 2022/23</b>	<b>Net Budget</b>
	<b>£m</b>
Adult Services	418.950
Chief Executive Services	15.470
Children's Social Care	171.440
Corporate Services	23.160
Education and Skills	58.230
Finance Services	18.760
Growth, Environment and Planning	6.290
Waste Management	71.730
Highways and Transport	75.540
Public Health and Wellbeing	2.290
Strategy and Performance	33.650
Organisational Development and Change	1.980
Digital Services	33.510
<b>Sub-Total</b>	<b>931.000</b>
Financing Charges	30.450
Use of one off resources	-13.340
<b>Revenue budget 2022/23</b>	<b>948.110</b>

## 6. The capital Delivery Programme

This is detailed in Appendix B.

## 7. Council Tax 2022/23

Full council is advised that the band D council tax for 2022/23 be increased by 3.99% This includes the 1% social care precept deferred from 2021/22 and the additional 1% Adult Social Care Precept allowed for 2022/23. The impact of these increases is:

**Table 12**

	<b>Band D Council Tax</b>	<b>Council Tax income</b>
Adult Social Care Precept increase at 2%	£29.12	£10.980m
General Council Tax increase at 1.99%	£28.98	£10.930m

The overall position is summarised as follows:

**Table 13**

	<b>£m</b>
<b>Budget Requirement</b>	<b>948.110</b>
Less Revenue Support Grant	34.630
Less Business Rates	215.250
Less New Homes Bonus	2.470
Less Improved Better Care Fund	47.150
Less Social Care Grant	57.100
Less Collection Fund	1.260
Less Services Grant 2022/23	13.060
Less Capital Receipts	6.000
<b>Equals council tax cash</b>	<b>571.190</b>
Divided by tax base (estimate)	377,198.67

Gives Band D council tax for 2022/23	£1514.29
2021/22 council tax	£1456.19
<b>Percentage increase</b>	<b>3.99%</b>

## 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%)	+/- 5.700
Pay (1%)	+/- 3.290
Price Inflation (1%)	+/- 6.990
Demand (1%)	+/- 5.230

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

- **Government Funding**

On 27 October 2021 the Chancellor announced the Spending Review 2021. Whilst a multi-year Spending Review was originally expected, the Chancellor and the Prime Minister decided to conduct a one-year Spending Review, setting the department's resource and capital budgets for 2022/23 only in order to prioritise the response to COVID-19 and focus on supporting jobs.

The Final Settlement was announced on the 7<sup>th</sup> February 2022 and confirmed the funding streams that were included within the spending review and the provisional settlement 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 based on a lack of any certainty regarding funding levels post 2022/23. We anticipate the delayed fair funding review and business rates system review to take effect from 2023/24. The MTFS does not currently reflect any potential impact for these changes.

Assumptions have been made that include the continuation of social care grants, improved better care fund and business rates to continue in its current format for the remainder of the strategy.

The final settlement confirmed that the maximum increase that can be applied to council tax, without a referendum, will be 1.99%. In addition, those authorities with responsibility for adult social care can raise council tax by an additional 1% through an adult social care precept. It has also been confirmed that any of the previous year's allowed increase of 3% not yet utilised can also be used in 2022/23.

## **Service Demand**

In 2021/22 we have seen the impact of the pandemic on demand levels, with areas such as nursing and residential care being initially lower than budgeted, due to a number of factors including lockdown 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. As 2021/22 has progressed we have seen large increases in demand for both Adults and Children's services, as a consequence of this, increased demand and inflationary price pressures have had to be factored into the MTFS. For Adults social care services an additional £92m has been built in covering both demand and inflationary fee pressures over the next three years

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

Demand pressures are 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, including the impact of the pandemic, and what steps can be taken to mitigate the financial impact, which 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, the 2021/22 pay increase has not yet been agreed and therefore the MTFs continues to use existing forecast rates. The county council also remains committed to paying its employees as an accredited member of the Living Wage Foundation.

- **Inflation**

Levels of inflation have been increasing during the year with the UK Consumer Price Index (CPI) for November registered 5.1% year on year, up from 4.2% in the previous month. Inflation is now forecast by the Monetary Policy Committee to peak at 6% in April 2022.

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**

As a result of the inflationary pressures there was an expectation that the Bank Rate would be increased, and the Bank of England did increase the Bank Rate to 0.50% in February 2021. Arlingclose, the council's Treasury Management advisors, expect the Bank Rate to stay at that level for the foreseeable future".

- **Savings Programme Delivery**

The scale of savings agreed to be delivered remains significant with £42m of previously agreed savings budgeted to be delivered by 2022/23, £8.5m of which is now forecast not to be delivered until 2023/24 due to the refocussing of officer priorities during the pandemic. There is also a further £7.370m of new savings for 2022-23 assumed in the budget

Any further 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 2022 is £23.440m. In addition, the council is forecast to hold £15m 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 2021/22 forecast underspend is currently forecast to be £211.750m and is sufficient to meet the forecast funding gap within the current Medium Term Financial Strategy covering 2022/23 to 2024/25.

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 2022/23 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 2022/23 to 2024/25. 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.