

**Report to the Cabinet**

Meeting to be held on Thursday, 8 September 2022

**Report of the Chief Executive and Director of Resources**

**Part I**

Electoral Division affected:  
(All Divisions);

**Corporate Priorities:**  
Delivering better services;  
Caring for the vulnerable;  
Supporting economic growth;

**Money Matters 2022/23 Position - Quarter 1**

(Appendices 'A', 'B', and 'C' refer)

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**Brief Summary**

This report provides an update to Cabinet on the county council's 2022/23 revenue and capital financial position, as at the end of June 2022 and an updated medium term financial strategy covering the period 2023/24 to 2025/26.

The effects of the COVID-19 pandemic are still evident in some services particularly relating to Adults and Children's Social Care. There are also significant inflationary pressures resulting from a number of factors including the pandemic and the war in Ukraine.

Consequently, significant assumptions are required to underpin our forecasts. While these can be made with a level of confidence in the current year, there is significant uncertainty over the medium term with regard to the scale and length of inflationary pressures and future funding levels. The forecast is therefore based on a set of reasonable assumptions applied from various sources including national and professional bodies and discussion with peers, given the forecast pressures are largely the result of factors outside the direct control of the council and are affecting local government as a whole.

Whilst a multi-year Spending Review was originally expected at the end of 2020,



this has not yet happened. A one-year settlement for 2022/23 was announced in December 2021 and a two-year rollover settlement is currently anticipated for 2023/24 and 2024/25 based on the same principles as the 2022/23 settlement with no significant increases in funding levels aside from permissible increases in council tax.

Whilst the quarter 1 forecast presents an overspend of £17.740m for the current financial year, there remains a level of uncertainty about the longer-term effects of the pandemic and economic issues. The ultimate impact of latent demand on service levels also remains unclear.

The current medium term financial strategy indicates a forecast funding gap of £87.054m in 2023/24, an increase of £56.506m on the previously reported position, with the forecast gap rising to £159.678m by 2026/27. The increase is the result of a number of factors including the impact of rising levels of inflation, a significantly higher than anticipated suggested national pay award and increasing demand for adult and children's services.

In summary:

- (i) The 2022/23 revenue forecast outturn is £965.847m, representing a projected overspend of £17.740m (1.87%) of the agreed budget.
- (ii) The medium-term financial strategy has been updated for current expectations of levels of funding, savings delivery, demand and inflation.
- (iii) At Full Council in February 2022 the medium-term financial strategy showed a deficit of £41.349m in 2024/25. The forecast now indicates a financial deficit of £159.678m by 2026/27.
- (iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.437m representing circa 2.4% of net budget, which is unchanged from the previously reported position.
- (v) The council is forecast to hold £191.093m of uncommitted transitional reserve at the end of the financial year. This is sufficient to meet the forecast gap for the medium-term financial strategy for the financial year 2023/24 and part of the financial year 2024/25.
- (vi) The council is forecast to spend £196.951m of the £221.889m approved delivery programme. This represents a forecast variance underspend of £24.938m which represents 11.2% of the approved programme.

## Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast overspend of £17.740m on the revenue budget in 2022/23.
- (ii) **Note** the revised funding gap of £159.678m covering the period 2023/24 to



2026/27 as set out in the revised financial outlook forecast for the council.

- (iii) **Approve** the budget adjustments for 2022/23, and following years' changes, included in the revised medium term financial strategy.
- (iv) **Note** the contents of the county council's reserves position.
- (v) **Note** the revised 2022/23 capital delivery programme of £221.889m and the forecast outturn of £196.951m primarily due to slippage of delivery to future years.

## Detail

The detailed reports present the quarter 1 position and are appended as follows:

- Appendix 'A' - the 2022/23 forecast revenue position.
- Appendix 'B' - revised medium-term financial strategy for the period 2023/24 to 2026/27, including reserves position.
- Appendix 'C' - the 2022/23 re-profiled capital delivery programme and forecast outturn.

### 2022/23 Revenue Position as at 30<sup>th</sup> June 2022 (Appendix 'A')

A revenue overspend is currently forecast at £17.740m and represents a variance of 1.87% against the overall revenue budget of £948.107m. 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. The focus will remain on continuing to tightly control and drive down costs wherever possible.

This forecast takes into consideration the latest pay offer from The National Employers for local government services of, an increase of £1,925 on all National Joint Council pay points 1 and above with effect from 1 April 2022 plus, an increase of 4.04 per cent on all allowances (as listed in the 2021 National Joint Council pay agreement circular dated 28 February 2022) with effect from 1 April 2022. The forecast also includes related oncosts on the £1,925.

The savings that have been agreed to date are significant, with a further request for savings for the 2023/24 financial year. As restrictions have largely been lifted, other than for social care, and services return to providing services closer to the levels provided pre-pandemic there is renewed focus and activity in monitoring and delivering the savings that are already built into the budget.

### The Medium-Term Financial Strategy and Reserves position (Appendix 'B')

The current medium term financial strategy indicates a forecast funding gap of £87.054m in 2023/24, an increase of £56.506m on the previously reported position, with the forecast gap rising to £159.678m by 2026/27. The increase is the result of a



number of factors including the impact of rising levels of inflation, a significantly higher than anticipated suggested national pay award and increasing demand for adult and children's services.

The value of the uncommitted transitional reserve is currently forecast to be £191.093m by the end of March 2023. This does not include the impact of the forecast overspend within the 2022/23 outturn position due to it being so early in the financial year. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gap for 2023/24 and part of 2025/26 but not later years. Work is progressing on identifying savings proposals to reduce the forecast funding gap and requirement for reserves to support future revenue budgets and they will be considered at future Cabinet meetings.

### Capital delivery programme for 2022/23 (Appendix 'C')

A 2022/23 capital delivery programme of £208.263m was agreed at Full Council in February 2022. This delivery programme figure has been revisited and, following confirmation of the final 2021/22 slipped delivery figures, subsequently approved additions and re-profiling of the programme have increased the in-year programme to £221.889m. This figure will form the basis of the capital programme monitoring throughout the financial year.

The current forecast for spend is £196.951m with the underspend currently forecast mainly due to later than anticipated starts on the corporate property programme and certain economic development projects.

### **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 economic pressures, revenue support grant, social care grant, business rates and the fairer funding review which has been further delayed. 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 various scenarios have been modelled, 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 energy costs and contractual price increases, 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 2022/23 to 2024/25. 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**

Matters referred to in this financial forecast will be subject to council consideration where appropriate.

## **List of Background Papers**

Paper	Date	Contact/Tel
None		
Reason for inclusion in Part II, if appropriate		
N/A		

