

Report to the Cabinet

Meeting to be held on Thursday, 3 February 2022

Report of the Chief Executive and Director of Resources

Part I

Electoral Division affected:
(All Divisions);

Corporate Priorities:
Delivering better services;
Protecting our environment;
Supporting economic growth;
Caring for the vulnerable;

Money Matters 2021/22 Position - Quarter 3

(Appendices 'A' - 'C' refer)

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Brief Summary

This report provides an update to Cabinet on the county council's 2021/22 revenue and capital financial position, as at the end of November 2021 and an updated Medium-Term Financial Strategy covering the period 2022/23 to 2024/25.

The Chancellor of the Exchequer announced a 3-year spending review on 27 October 2021, this followed on from the prime minister's announcement that the government would be introducing a new national insurance levy of 1.25% to fund health and social care reform with changes to adult social care charging to come into effect from October 2023.

The draft local government settlement was a one-year settlement for 2022/23 only and draft allocations were provided to local authorities on 16 December and have been factored into the updated funding position for 2022/23 with the final settlement to be confirmed in early February. Assumptions have been made regarding funding in future years based on advice from national bodies, benchmarking, and discussion with peers in the absence of a longer-term settlement beyond 2022/23 and the likelihood of formula and business rate funding changes being implemented from 2023/24.

Whilst the quarter 3 forecast presents an underspend of £23.45m for the current financial year, there remains a level of uncertainty about the longer-term impacts of the ongoing pandemic. The extent and profiling of any latent impact on price or demand for our services also remains unclear.

With the initial settlement information now received we have updated the projections based on this information, which may still be subject to changes in the final settlement. Services have also been through a process of identifying budget pressures and developing business cases for investment in activities designed to both improve service delivery and ultimately deliver cost benefits.

The revised position also reflects some further delays to the delivery of previously agreed savings resulting from services responding to the pandemic, although these are mitigated through the identification of new savings and it is anticipated that delayed savings will be delivered during 2023/24.

The current Medium-Term Financial Strategy indicates an aggregated funding gap of £42.830m by 2024/25, a £15.730m decrease from the previously reported position at Quarter two of this financial year. The forecast funding gap for 2022/23 is now £21.690m which is an improved position of £8.780m from Quarter 2 resulting from the initial analysis of the provisional settlement offset primarily by increasing demand and inflationary pressures for both Adults and Childrens services.

In summary:

- (i) The 2021/22 revenue forecast outturn is £881.413m, representing a projected underspend of £23.46m (2.66%) 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 Full Council in February 2021 the Medium-Term Financial Strategy showed a deficit of £30.470m in 2022/23 and £50.048m in 2023/24. The forecast now indicates a financial deficit of £21.690m in 2022/23 and £42.830m by 2024/25.
- (iv) The council is forecast to hold a General Reserve against unforeseen issues of £23.44m representing circa 3% of net budget, which is unchanged from the previously reported position.
- (v) The council is forecast to hold £204.450m of uncommitted transitional reserve at the end of the financial year, which includes the forecast underspend for 2021/22. This is sufficient to meet the forecast gap for all of the years covered by the Medium-Term Financial Strategy, 2022/23 to 2024/25.

Recommendation

Cabinet is asked to:

- (i) **Note** the current forecast underspend of £23.46m on the revenue budget in 2021/22.
- (ii) **Note** the revised funding gap of £21.690m in 2022/23 and **Agree** to make recommendations to Full Council on 17 February 2022 for this to be met from the uncommitted transitional reserve.

- (iii) **Note** the revised forecast funding gap of £42.830m by 2024/25 as set out in the revised financial outlook forecast for the council.
- (iv) **Approve** the budget adjustments for 2021/22, and following years' changes, included in the revised Medium-Term Financial Strategy.
- (v) **Note** the contents of the county council's reserves position.
- (vi) **Note** the revised 2021/22 capital delivery programme of £165.567m and the forecast outturn of £164.050m.
- (vii) **Agree** to make recommendations to Full Council on 17 February 2022 for an indicative capital delivery programme of £206.263m in 2022/23.
- (viii) **Agree** to make recommendations to Full Council on 17 February 2022 for a Band D Council Tax for 2022/23 reflecting a 3.99% increase including 2% to be used for adult social care as per the new flexibilities.

Detail

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

- Appendix 'A' - the 2021/22 forecast revenue position.
- Appendix 'B' - revised medium-term financial strategy for the period 2022/23 to 2024/25, including reserves position.
- Appendix 'C' - the 2021/22 capital financial position and draft capital delivery programme for 2022/23 to 2024/25.

2021/22 Revenue Position as of 30 November 2021 (Appendix 'A')

A revenue underspend is currently forecast at £23.46m and represents a variance of 2.66% against the overall revenue budget of £881.41m. The forecast outturn position reflects an increasing underspend including significant gains on Treasury Management and some service areas with lower than anticipated demand when setting the budget. The report also identifies those areas where forecast pressures exist and are subject to ongoing detailed review with the focus 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 £42.727m to be delivered in 2021/22. This is a combination of savings that were planned to be delivered in 2020/21 and were delayed due to the pandemic, and the budgeted savings agreed to be removed from the budget in 2021/22. Delays to the delivery of some of those savings has been experienced due to the pandemic offset by utilisation of COVID-19 grant funding and offsetting cost reductions.

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

The previous updated Medium-Term Financial Strategy reported to Cabinet in November forecast a funding gap of £30.470m in 2022/23 and £58.560m by 2024/25. The updated funding gap contained within this report is £21.690m in 2022/23 and £42.830m by 2024/25 which is a reduction of £8.780m in 2022/23 and £15.730m by 2024/25. The reduction is primarily due to the impact of the one-year provisional finance settlement offset by a revision of the demand position.

The value of the uncommitted transitional reserve is currently forecast to be £204.450m by the end of March 2022, including the impact of the forecast underspend within the 2021/22 outturn position. The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the identified funding gaps for financial years 2022/23 - 2024/25, but the intention is to identify further savings, thereby securing a sustainable financial position for the council going forward.

Capital delivery programme for 2021/22 and Indicative Capital Delivery Programme for 2022/23 to 2024/25 (Appendix 'C')

In February 2021, an indicative Capital Delivery Programme of £152.439m was agreed with Cabinet. This delivery programme figure has been revisited following confirmation of the final 2020/21 slipped delivery figures, additions to the capital programme agreed post February 2021 and re-profiling of the programme deliverables in year which have increased the in-year programme to £165.567m with a forecast outturn of £164.050, a variance of -£1.517m or c-0.9%. An indicative capital delivery programme of £206.263m is proposed for 2022/23 but will be reviewed once the outturn position for 2021/22 is confirmed and any reprofiling that is necessary at that point reported to Cabinet.

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%)	+/- 5.700
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 (SR21). 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 2022/23 only in order to prioritise the response to COVID-19 and focus on supporting jobs.

The Provisional Settlement was announced on 16 December 2021 and confirmed the funding streams that were included within SR21 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 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.

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 1% through as adult social care precept. It has also been confirmed that any of the previous Adult Social care precept flexibility allowed but not taken in 2021/22 can be applied 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 Childrens services, as a consequence of this, increased demand and inflationary price pressures have had to be factored into the Medium-Term Financial Strategy. 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 current 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 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.

- **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 0.25% in

December 2021. Arlingclose, the council's Treasury Management advisors, expect the Bank Rate to rise to 0.5% in quarter one of 2022 and then 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.

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 £23.437m. In addition, the council is forecast to hold £15.4m 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 £204.450m 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.

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 from 2023/24 onwards and a prudent assessment of future funding levels has been made. We have received the provisional settlement for 2022/23 and the final settlement is due in early February.

Demand

There is continued pressure on the council's budget from demand led service areas, particularly around adult and children's social care, and whilst the most up to date demand forecasts have been included, they are subject to volatility and will continue to be closely monitored and reviewed.

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 funding for fee increase that enable independent sector providers to meet the significant additional costs of the increases in 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 fully by 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