



FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

IMPROVEMENT AND SCRUTINY COMMITTEE - RESOURCES

2 December 2021

Report of the Director of Finance & ICT

Production of 2022-23 Revenue Budget

1 Purpose of the Report

- 1.1 To consult Members of the Improvement and Scrutiny Committee – Resources as part of the process towards production of the 2022-23 Revenue Budget, providing Members with an update of the Revenue Budget Forecast Outturn for 2021-22, a summary of the Autumn Budget and Spending Review 2021, and an update on Cost Pressure Bids received in respect of the 2022-23 Revenue Budget.

2 Information and Analysis

Forecast Outturn 2021-22

- 2.1 The Council's forecast outturn for 2021-22 as at Quarter 1 (30 June 2021), compared to controllable budget, is summarised below. The forecast outturn table shows the position net of the impact of the ring-fenced Dedicated Schools Grant (DSG) of £378.684m and Public Health grant of £42.607m, other ring-fenced grants and income from other third parties and their associated spend.

Revenue Outturn Summary

	Budget	Use of MHCLG Covid-19 & SFC Grant Funding	Adjusted Budget	Forecast Actuals	Projected Outturn	Budget Performance
	£ Millions	£ Millions	£ Millions	£ Millions	£ Millions	
Adult Care	260.279	4.661	264.940	265.978	1.038	🔴
Clean Growth and Regeneration	0.773	0.026	0.799	0.577	-0.222	🟢
Corporate Services and Budget	47.511	0.480	47.991	52.616	4.625	🔴
Children's Services and Safeguarding	140.236	4.850	145.086	150.854	5.768	🔴
Health and Communities	8.533	0.095	8.628	8.155	-0.473	🟢
Highways and Transport	30.685	0.889	31.574	34.171	2.597	🔴
Infrastructure & Environment	43.508	2.980	46.488	45.993	-0.495	🟢
Strategic Leadership, Culture, Tourism and Climate Change	12.729	0.079	12.808	12.977	0.169	🔴
Total Portfolio Outturn	544.254	14.060	558.314	571.321	13.007	🔴
Risk Management	20.289	0.000	20.289	9.813	-10.476	🟢
Debt Charges	28.734	0.000	28.734	27.958	-0.776	🟢
Interest and Dividend Income	-4.099	0.908	-3.191	-4.730	-1.539	🟢
Levies and Precepts	0.354	0.000	0.354	0.357	0.003	🔴
Corporate Adjustments	4.930	0.538	5.468	6.793	1.325	🔴
Total	594.462	15.506	609.968	611.512	1.544	🔴

2.2 The Covid-19 pandemic is continuing to have a significant impact on the Council's finances in 2021-22.

2.3 An overall Council overspend of £1.544m is forecast, after accounting for use of £15.506m of non-ringfenced grant funding provided by the Ministry of Housing Communities & Local Government (MHCLG) to support local authorities with the impacts of the Covid-19 pandemic. This includes funding from:

- compensation for lost sales, fees and charges income claimable under the Government scheme announced on 2 July 2020, which has been extended to 30 June 2021; and
- Covid-19 emergency grants of £15.337m awarded in 2021-22 and £11.248m awarded and brought forward from 2020-21.

2.4 A portfolio overspend of £13.007m is forecast. The significant variances are an overspend of £5.768m on the Children's Services and Safeguarding portfolio, a £4.625m overspend on the Corporate Services and Budget portfolio, a £2.597m overspend on the Highways and Transport portfolio and a £1.038m overspend on the Adult Care portfolio.

- 2.5 Forecast outturn for 2021-22 as at Quarter 2 (30 September 2021) has yet to go to Cabinet but the expectation is that it will show a small overall Council underspend, rather than a small overspend. However, the total portfolio overspend is expected to increase, mainly as a result of an increase in the Adult Care portfolio overspend.
- 2.6 The forecast £5.768m overspend on the Children's Services and Safeguarding portfolio is primarily due to continued high demand for placements for children who are in care or unable to remain at home. The needs of individual children and the availability of placements has also meant that there are an increased number of children who have been placed in both more expensive fostering arrangements and more expensive residential provision. Other factors contributing to the overspend include the price and the number of journeys associated with transporting children with educational needs to school and the safeguarding costs of supporting a greater number of children in care and children and families in need.
- 2.7 The Council plans to support the Children's Services and Safeguarding portfolio through allocations of a combination of ongoing budget growth and one-off funding to put these services on a sustainable financial footing by the time mitigation measures are able to stabilise the demand pressures on looked after children. Recent modelling suggests that demand is likely to level off by 2023-24.
- 2.8 The forecast £4.625m overspend on the Corporate Services and Budget portfolio is mainly due to current and prior-year savings targets which are not expected to be achieved in 2021-22, relating to the Corporate Property function, running costs on buildings that are awaiting disposal and a delay in the implementation of the new Legal Services operating model.
- 2.9 The forecast £2.597m overspend on the Highways and Transport portfolio relates to the Winter Service budget, which doesn't provide for more than a mild winter and to savings targets which have not yet been allocated to specific services.
- 2.10 The forecast £1.038m overspend on the Adult Care portfolio relates to Purchased Services costs driven by the number of new care packages required to be provided to assessed individuals.
- 2.11 The table below shows the Covid-19 related costs across the portfolios as £14.060m. This is the forecast additional cost and lost income of the Council's response up to the end of March 2022, including the impact of

slippage to the planned programme of savings which cannot yet be implemented as a result. This amount allows for any specific funding to offset the gross Covid-19 related costs which has already been forecast to be allocated to individual portfolios; these amounts are detailed below. Budget of £14.060m is forecast to be allocated to portfolios, from the emergency Covid-19 grant funding and the compensation for lost income from sales, fees and charges received from Government, to match these costs.

Covid-19 Forecast Gross Costs and Additional Income by Portfolio

	Covid-19 related Costs	LESS: Specific funding for Portfolio Covid-19 Costs	Use of MHCLG Covid-19 and SFC Grant Funding
	£m	£m	£m
Adult Care	20.409	(15.748)	4.661
Clean Growth and Regeneration	0.026	0.000	0.026
Corporate Services and Budget	0.480	0.000	0.480
Childrens Services and Safeguarding	8.656	(3.806)	4.850
Health and Communities	6.091	(5.996)	0.095
Highways and Transport	0.889	0.000	0.889
Infrastructure and Environment	2.980	0.000	2.980
Strategic Leadership, Culture, Tourism and Climate Change	0.079	0.000	0.079
Total Portfolio Outturn	39.610	(25.550)	14.060

Forecast use of Specific funding for Portfolio Covid-19 Costs

Adult Care	£m
Hospital Discharge Recharge	6.520

	Public
Infection Control Fund	9.228
Total Adult Care	15.748
Childrens Services and Safeguarding	
Home to School Transport	0.325
Wellbeing for Education return	0.032
Winter Grant Scheme	0.883
Covid Local Grant Scheme	2.566
Total Childrens Services and Safeguarding	3.806
Health and Communities	
Test and Trace	0.062
Contain Outbreak Management	5.840
Support CEV Individuals	0.076
Practical Self-Isolation Support	0.018
Total Health and Communities	5.996
TOTAL	25.550

Risk Management Budget

2.12 There is a forecast underspend on the Risk Management Budget of £10.476m in 2021-22.

2.13 The Risk Management Budget of £20.289m includes:

- £12.203m of contingency funding set aside in the 2021-22 Revenue Budget. This comprises:
 - £8.390m general contingency;
 - £2.313m for a pay award; and
 - £1.500m for 2021-22 County Council election costs
- £1.500m of one-off funding approved in the Council's 2021-22 Revenue Budget to pump prime the development of an Assistive Technology service. These funds were returned unused from the Adult Care portfolio as the portfolio was able to alternatively finance this initiative from its underspend in 2020-21.
- £6.000m of Covid-19 Local Support grant. An additional grant to the non-ringfenced grants that had been announced when the 2021-22 Revenue Budget was approved by Council on 3 February 2021.
- £0.585m of ongoing Transition Funding approved in the Council's 2020-21 Revenue Budget allocation for Demographic Growth, which had not been utilised by 31 March 2021, returned from the Adult Care portfolio.

- 2.14 The forecast expenditure of £9.813m on the Risk Management Budget is:
- £6.000m utilisation of the Covid-19 Local Support Grant.
 - £2.313m draw-down of contingency funding for a pay award.
 - £1.500m draw-down of contingency funding for election costs.

Debt Charges

- 2.15 The Debt Charges budget is forecast to be underspent by £0.776m in 2021-22.
- 2.16 Debt charges are based on interest payments, the Capital Financing Requirement (CFR), a Minimum Revenue Provision (MRP) of 2.5% (in keeping with the policy reported to Cabinet on 22 November 2016) and a £7.000m one-off reduction in the Council's Capital Adjustment Account Reserve. This reduction is made on the basis that the amounts set aside to repay debt over the last ten years are well in excess of what is required to ensure the Council can repay its debts.

Interest and Dividend Income

- 2.17 Interest and dividend income budgets are forecast to be underspent by £1.539m in 2021-22.
- 2.18 The interest base rate has remained at an historically low rate of 0.10% since 10 March 2020. However, the Council utilises a range of investments, including pooled funds, to maximise its interest and dividend income on balances.
- 2.19 A projected decrease of £0.654m in dividend income on the Council's investments in pooled funds, compared to 2019-20, is forecast to be supported by the use of MHCLG Covid-19 grant funding. Pooled fund investments have been held for the whole financial year to date.
- 2.20 The interest rate on the loan to Buxton Crescent Ltd has been reduced in recognition of the fact that the revenues from Buxton Crescent hotel are expected to be significantly lower than anticipated because of the impacts of Covid-19. The resulting decrease of £0.254m interest income accruing to this loan in 2021-22 is forecast to be funded using MHCLG Covid-19 grant funding.

Budget Savings

- 2.21 The budget savings target for 2021-22 is £13.291m, with a further £12.768m target brought forward from previous years. The savings initiatives identified to meet this target fall short by £9.604m, therefore further proposals will need to be brought forward to ensure the Council continues to balance its budget. Of this total target of £26.059m,

£9.777m is forecast to be achieved by the end of the financial year. Therefore, there is a £16.282m forecast shortfall in achievement of budget savings. The resulting base budget overspend is offset to some extent by one-off underspends, one-off funding from earmarked reserves and additional grant funding received.

- 2.22 The Revenue Budget Report 2021-22 was approved by Council on 3 February 2021. It confirmed that target savings of £72m are required by the end of 2025-26, of which £38m have been identified. The identified savings comprise £35m of identified departmental annual budget savings and £3m of cross-departmental annual budget savings over the period of the Five Year Financial Plan (FYFP)., a summary of which is set out in the graph below.
- 2.23 There is a clear and significant challenge to identify savings to bridge the remaining savings gap and plan the best approach to achieving those savings over the next few years, if additional funding is not received over and above that which is forecast. Additional funding may come from further increasing Council Tax in 2022-23 onwards, over and above the 2% increases forecast, up to referendum limits, further Government grants over and above those predicted or from increased business rates growth. There is a planned use of General and Earmarked Reserves from 2021-22 to 2025-26 to achieve a balanced budget.

Earmarked Reserves

- 2.24 Earmarked reserves are held to meet known or predicted liabilities and the funds should be used for the item for which they have been set aside. Any funds no longer required are returned to the General Reserve. The Council reviews the level of earmarked reserves at least annually. The next review of earmarked reserves is scheduled to take place in December 2021.
- 2.25 The Council's response to the Covid-19 pandemic and its effects on the Council's finances are expected to continue into 2021-22. Any funding received to support Covid-19 impacts, which had not been utilised by 31 March 2021, has been contributed to earmarked reserves or is held as a receipt in advance. This will enable this funding to be used for relevant expenditure over the two-year period 2020-21 to 2021-22.

General Reserve

- 2.26 The General Reserve stands at £77.663m at 30 June 2021. The level of General Reserve is £50.873m, after the commitments below and the forecast outturn for 2021-22, which is 8.9% of the Council's Net Budget Requirement for 2021-22. The commitments held against this balance are as follows:

General Reserve

	£m
Balance at 30 June 2021	77.663
Less: 2020-21 Outturn Allocations to Portfolios and Corporate Reserves	
Adult Care	0.000
Corporate Services	(0.175)
Clean Growth and Regeneration	(0.147)
Health and Communities	(0.984)
Highways, Transport and Infrastructure	(0.233)
Strategic Leadership, Culture and Tourism	(0.707)
Young People	0.000
Budget Management Reserve	(9.000)
Contingency Reserve for Post-Covid Funding Risks	(14.000)
Balance at 30 June 2021 after Outturn allocations	52.417
Projected Outturn 2021-22	(1.544)
Forecast Balance at 31 March 2022	50.873

Net Budget Requirement 2021-22 **572.475**

General Reserve Balance as % of NBR at 31 March 2022 **8.89%**

- 2.27 In addition there are also commitments held against the General Reserve balance, which were referred to in the Council's 2021-22 Revenue Budget Report.
- 2.28 The majority of chief financial officers consider an acceptable level of generally available reserves to be one that reflects a risk-based approach to potential liabilities. A relatively crude measure is to expect the resulting figure to be between 3% to 5% of a council's net spending, representing a prudent level of risk-based reserves. As at 30 June 2021, after the commitments above, the figure for the Council stood at 9%, indicating a robust balance. However, it is necessary to consider this indicator over the medium term to gain a better understanding of its adequacy.

Traded Services

- 2.29 A trading area is where the Council receives income in return for providing discretionary services to external organisations and/or individuals.
- 2.30 'Fully traded' trading areas are separately identifiable and have a net controllable budget of £0, i.e. there is an expectation that on average all

the controllable expenditure within this area will be funded from external income. An overall deficit of £0.225m is forecast for 2021-22 on fully traded areas across the Council as a whole.

- 2.31 'Partially traded' trading areas do not have a net controllable budget of £0, but they do receive income from external entities which contributes to funding some of the discretionary services they provide. An overall shortfall of £0.088m compared to the budgeted income target is forecast for 2021-22 on partially traded areas across the Council as a whole.

Autumn Budget and Spending Review 2021

- 2.32 The Spending Review 2021 (SR 2021) was launched on 7 September 2021, along with plans for Social Care Reform. These Social Care Reform plans include:

- 1.25% increase in National Insurance (NI), from April 2022, ring-fenced for health and social care.
- From April 2023, the NI increase will be legislatively separate and separately identified on employees' pay slips as a separate Health and Social Care Levy. It will also apply to individuals working above state pension age.
- 1.25% increase in tax on share dividends, from April 2022.
- These changes will raise £36bn UK-wide, of which an average of £5.4bn will be for adult social care over the next three years.
- An £86,000 cap on total care costs and means-testing for financial support to people with less than £100,000 in relevant assets will be implemented from October 2023.

- 2.33 On 27 October 2021, the Government announced the details of the Autumn Budget and SR 2021, which sets out public spending totals for three years, from 2022-23 to 2024-25.

- 2.34 The Office of Budget Responsibility (OBR) forecasts that Gross Domestic Product (GDP) will rise by 6.5% in 2021. The OBR now expects the economy to regain its pre-pandemic size around the turn of the year, earlier than the previously expected mid-2022. All medium-term forecasts are revised upwards.

- 2.35 The key announcements in the Autumn Budget and SR 2021, relevant to local government, were:

- Core spending power for local authorities is estimated to increase by an average of 3% in real terms each year over the SR 2021 period, including investment in Adult Social Care reform.
- The approach to allocating funding in 2022-23 will be set out in the Provisional Local Government Finance Settlement.
- There will be further engagement with the sector on wider reforms to be implemented in subsequent years.

- Around £1.6bn of new funding is allocated over each year of the SR 2021 period, for social care and other services. This is the largest increase in core local government funding in over a decade. Funding for the additional cost of NI for Social Care is included in this new funding. Over the SR 2021 period, this funding also includes:
 - £200m to expand the Supporting Families programme
 - £37.8m to address cyber security issues facing local government.
 - A further £3.6bn of the £5.4bn of funding for adult social care reform announced on 7 September 2021 will be routed through local government, to implement the cap on personal care costs and changes to the means test. This funding will also help local authorities better sustain their local care markets by moving towards a fairer cost of care.
 - Within the Department for Health and Social Care settlement is £1.7bn from the £5.4bn of funding for adult social care reform, which will be invested over three years to improve social care more broadly, of which at least £500m will be dedicated to improving skills, qualifications and wellbeing in the adult social care workforce.
 - The Government will maintain the Public Health Grant in real terms over the SR 2021 period.
 - £259m is allocated over the SR 2021 period to maintain capacity and expand provision in secure and open residential children's homes.
 - Investment of £500m over the next three years to transform 'Start for Life' and family help services in half of the council areas across England. This will fund a network of Family Hubs, Start for Life services, perinatal mental health support, breastfeeding services and parenting programmes. It includes an additional £200m for the Supporting Families programme.
 - Provision of £200m each year to continue the holiday activities and food programme for disadvantaged children in England.
 - A 2% per year Council Tax general increase is assumed, with an additional 1% per year of Adult Social Care precept for social care authorities. Local authorities can carry forward unused Adult Social Care precept in 2021-22, in addition to the 1% cap in 2022-23.
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- A reform of business rates, including a significant tax cut for retail, hospitality and leisure industries. Local authorities will be fully compensated for the loss of income as a result of these business rates measures and will receive new burdens funding for administrative and IT costs. There will be additional compensation for under-indexation of the Business Rates multiplier, including the gap between CPI and RPI inflation rates, and will be additional to the £4.8bn increase in core spending power.
 - It was also announced that there will be more frequent Business Rates revaluations, which will be every three years from 2023.

- There will be an increase in the National Living Wage (NLW) by 6.6% to £9.50 an hour for people aged 23 and over, starting on 1 April 2022. The Government continues to aim for a NLW of two-thirds of median incomes by 2024.
 - The Government will oversee an increase in skills spending over the parliament, up by £3.8bn.
 - An additional £4.7bn towards the core schools budget in England by 2024-25.
 - Allocation of £2.6bn over the SR 2021 period for 30,000 new school places for children with special educational needs and disabilities (SEND) in England.
 - £3.2bn for educational recovery over the SR 2021 period, including a £1bn Recovery Premium for the next two academic years, and support for additional learning hours, tutoring courses for disadvantaged pupils and teacher training.
 - £560m towards youth services in England.
 - Announcement of the first local infrastructure projects to receive £1.7bn in allocated funding through a £4.8bn multi-department Levelling Up Fund.
 - The first 21 projects to be funded by a £150m Community Ownership Fund were also announced.
 - Up to £200m was announced to deliver eight Freeports in England.
 - The UK Shared Prosperity Fund is the successor to the EU Structural Fund programme, and funding will rise to £1.5bn a year by 2024-25.
 - The Levelling Up White Paper will provide further information on the Government's plans regarding devolution deals.
 - Allocation of £2.7bn over the next three years for local roads maintenance in places not receiving City Region Settlements.
 - Bus investment of £3bn across the parliament, including a new dedicated commitment of £1.2bn for bus transformation deals in England, to deliver London-style services, fares and infrastructure improvements.
 - Additional income in 2024-25 from the Extended Producer Responsibility Scheme, for managing packaging waste in the final year of the SR 2021 period.
 - £34.5m of additional funding over the SR 2021 period to further strengthen local delivery and transparency. This funding will help to strengthen the sector's procurement and commercial capacity, establish the Audit Reporting and Governance Authority as the new local audit systems leader, and help local councils meet new transparency requirements.
- 2.36 The Society of County Treasurers (SCT) estimates a Provisional Local Government Finance Settlement date of mid-December 2021. At that point more detail will be provided on the funding the Council can expect to receive in 2022-23. It has not been announced whether the Local Government Finance Settlement will provide provisional allocations for

one-year, two-years or three-years. A multi-year settlement provides local authorities with some certainty to support medium-term financial planning.

Cost Pressure Bids

- 2.37 At the CMT meetings on 14 and 21 September 2021, detailed discussions were held in respect of 2022-23 Revenue Cost Pressure Bids received. Further clarity was requested from departments with regard to some of the bids.
- 2.38 Updated bids were received from departments and summarised for discussion at the CMT meeting on 2 November 2021. It was reported that Revenue Cost Pressure Bids of £50.522m ongoing and £16.803m one-off relating to 2022-23 had been received.
- 2.39 The scale of both ongoing and one-off bids is not financially sustainable. Therefore, further work is required to ensure that the Council can set a balanced budget in 2022-23 and over the medium-term, recognising increased costs from rising demand for services.
- 2.40 A significant level of pressure bids will not be funded and if the forecast pressures do occur, they will not be covered in the Council's budget. In such cases, the funding would initially come from the Council's General Reserve in 2022-23 but thereafter any such ongoing pressures would need to be met from additional savings that would need to be allocated to departments on top of those forecast.
- 2.41 A CMT away day is scheduled for early December 2021, when further details of Cost Pressure Bids will be presented alongside Service and Council Plan priorities, as well as Manifesto commitments. The final Cost Pressure Bids list will be for Members to consider, in the context of the forecast available future funding, based on the latest known information. A final list will need to be agreed in early December 2021, with final proposals presented to Council in February 2022.

Council Tax and Business Rates

- 2.42 Both Council Tax and Business Rates income are collected by billing authorities and placed into a separate pot called the Collection Fund. Councils and other authorities are paid fixed amounts from the Collection Fund on the basis of the billing authorities' forecast business rates income as at the start of the financial year. The timings or amounts of these payments cannot be revised within the year according to current regulations.
- 2.43 This means that, if there is under- or over-collection of local taxes in a given year against budgeted amounts, this loss hits councils' general funds in the following financial year when future drawdowns of the

Collection Fund are adjusted downward or upward to reflect last year's actual collected amounts.

- 2.44 Last year the district and borough councils were allowed to spread collection fund losses over three financial years, however, in preceding years the Council had benefited from collection fund surpluses. The impact of this spreading is the receipt of £1.042m less Council Tax funding in each of 2022-23 and 2023-24 for the Council. In addition to this, the district and borough councils have not yet estimated what the average collection fund position is this year. Details for this year will not be confirmed until January 2022.
- 2.45 Similarly, the district/borough councils are responsible for collecting local business rates, for which collection rates have also reduced, but rates vary between the district and borough councils. Last year the collection fund deficit reduced the Council's locally retained business rates income by £6.927m. Only £0.120m of the loss was spread into 2022-23 and 2022-24. The district and borough councils have not yet estimated what the average collection fund position is this year. Details will not be confirmed until January 2022.

3 Recommendations

That Members:

- 3.1 Note the Revenue Budget Forecast Outturn for 2021-22.
- 3.2 Note the key announcements in the Autumn Budget and SR 2021, relevant to local government.
- 3.3 Note the quantum of Revenue Budget pressure bids received, which cannot all be funded without significant additional budget reductions across all areas.
- 3.4 Note the actions taken in respect of the shortlisting and agreement of Cost Pressure Bids to support the budget production process.

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