

Agenda Item No 6(c)

DERBYSHIRE COUNTY COUNCIL

CABINET

30 July 2020

Report of the Director of Finance and ICT

BUDGET 2020-21

(STRATEGIC LEADERSHIP, CULTURE AND TOURISM)

1 Purpose of the Report

To provide Cabinet with details of the financial consequences in respect of the Revenue Budget 2020-21.

2 Information and Analysis

Background

On 5 February 2020, Council approved the Revenue Budget 2020-21 including details of service pressure allocations, savings targets and Council Tax levels.

Since that time, local authorities have been faced with the financial consequences of responding to the Covid-19 pandemic. Details of the estimated cost of the pandemic were reported to Cabinet on 4 June 2020. There is a further report for consideration at this meeting which sets out details of the revenue budget monitoring position for 2020-21, including Covid-19 costs up to the end of May 2020, together with projections up to the end of the current financial year.

Budget 2020-21

The Council set a net revenue budget of £560.211m which included substantial budget increases for both adults and children's social care, which are summarised below:

- An extra £20.7m for children's services to fund increased demand and costs including placements, support for care leavers, safeguarding, special educational needs and more social workers;
- An extra £18.9m for adult social care to cover growing demand due to an ageing population, winter pressures and the implementation of a transformation programme to promote greater independence for older people;

- An extra £4m to develop measures to address the threat of climate change, with an on-going £0.200m each year to co-ordinate and plan activity to reduce the council's and county's carbon footprint;
- An initial sum of £0.270m to begin planning to tackle ash dieback.

In setting its budget, the Council set a 2% Council Tax rise utilising the Government's legislation to raise much needed income to support services for older people. There was no additional increase in Council Tax for other services, resulting in one of the lowest council tax rises in the country compared to similar authorities.

Covid-19

To date, the financial costs of Covid-19 to the local government sector are significant. Analysis undertaken by the Local Government Association (LGA) in respect of the DELTA Covid-19 returns for June, shows a total projected cost, loss of income (including council tax and business rates) for local government totalling approx. £11bn.

The Government, to date, has provided a number of funding streams to local authorities, which includes:

- £1.6bn of additional funding to support local authorities. This was in addition to £1.3bn being allocated to clinical commissioning groups (CCGs) and the NHS to support discharge from hospitals (£22.996m allocation for the Council).
- a further £1.6bn was allocated to local government to support the immediate impacts of COVID-19. Individual allocations were announced on 28 April 2020 (£14.111m allocation for the Council).
- £600m infection control fund was allocated to local government, which is ringfenced to social care and is intended to support care homes to implement measures to reduce transmission of COVID-19 (£9.740m allocation for the Council, however, the funding is to be passported to the social care sector).
- £300m was allocated to local authorities to support test and trace services in their areas (£3.859m allocation for the Council).
- £63m was allocated for local welfare assistance schemes for local authorities to use 'at their discretion' to help the most vulnerable families affected by the pandemic (£0.808m allocation for the Council).
- £500m to respond to spending pressures (details still awaited).

In addition to the above funding the Government has also announced a scheme to reimburse lost income during the pandemic.

Despite the above funding measures, the budget monitoring report which appears as an agenda item earlier in the meeting serves as a stark reminder of the potential in-year Covid-19 costs which may result in an overspend of £45.382m. However, the £4.000m from the Business Rates Pilot may be utilised to reduce the overspend. It must be recognised that the estimates

are based on a number of assumptions, which have a high degree of volatility, but the range of potential outcomes will start to narrow in later periods of the financial year as budget monitoring is completed. Any significant variations will be reported to Cabinet.

It is important to note that the projected costs, as set out in the budget monitoring report, for the remainder of the financial year, include an estimate of the amount the Council may wish to spend on recovery. Additional costs, over and above normal operating costs, will be incurred in ensuring that the Council is operating its services safely and in accordance with Government guidelines. For example, if social distancing measures are to be maintained as pupils return to school in September 2020, the provision of additional home to school transport will be required. Furthermore, several of our services will incur additional costs in transitioning to safe and risk assessed operating activities.

The forecast overspend does not reflect the potential for further funding support from the Government. Therefore, it is hoped that the funding gap will not be as significant.

Lobbying

The Council continues to lobby for additional funding through special interest groups such as the Local Government Association and County Council Networks. The Council's Director of Finance & ICT has expressed his concerns in a recent call with officers from the Local Government Finance Directorate at the Ministry of Housing, Communities and Local Government.

Whilst there was no explicit promise of additional funding, it is hoped that additional funding support will be allocated to local government, particularly in the event of a second wave of the pandemic which may occur later in the financial year.

There are a number of uncertainties at this stage and these are set out in more detail in the Risk section below. On the basis that local authorities will be appropriately funded for both response and recovery costs, the Council should be able to manage and balance the budget in-year, however, there may be a call on the general reserve to meet any unfunded costs.

The financial position will be closely monitored throughout the year and reported to CMT/Cabinet in accordance with the Council's Budget Monitoring Policy.

Future Years Impact

The key issue and concern of the Council is the impact in future years and the Director of Finance & ICT was explicit in expressing his concerns during the conversation with MHCLG. There are several unknowns in respect of local authority funding over the medium term which are hindering the financial planning of local authorities. Without the certainty of funding allocations, the sector will have to make decisions on how it will deliver its services in a post

Covid-19 environment, without the foresight of a fiscal plan from Government on which to base its plans and priorities.

These funding uncertainties include:

- A comprehensive spending round that will cover the 2021-22 financial year only. Until recently, spending rounds have tended to provide a funding envelope spanning three financial years, thereby providing the funding certainty that local government needs;
- Fair funding and business rates retention reviews have been delayed.

Budget 2021-22

The loss of Council Tax and Business Rates income will have a significant impact on the Council's budget for the next financial year. Early indications suggest that loss of Council Tax income will impact the collection funds with an estimated deficit as much as £10m expected. This loss of income will be challenging against the backdrop of bids for service pressures which are expected as the Council looks to invest in recovery whilst maintaining and delivering Council Plan objectives.

Risks

The key risk to the Council's finances are the continuing costs of the first wave of the pandemic and the potential for a second wave of the pandemic, which will unquestionably give rise to additional costs such as increased demand for social care.

Further risks include:

- **Hospital Discharge Scheme**
The current Covid-19 Hospital Discharge Scheme has health funding for the cost of any care packages for clients leaving hospital and for prevention admissions. To date this has totalled approximately £2m. This funding will cease at some point. Whilst cases will still attract Continuing Healthcare funding and client contributions, there will still be a cost which is currently unquantifiable at this stage.
- **Home to School Transport**
Work is ongoing to understand the implications of pupils returning to school in September as the Government releases further guidelines for local authorities.
- **Loss of Income**
A second wave is likely to see lockdown measures imposed and therefore there is likely to be further losses of income which are not reflected in current projections.

Summary

At the time of setting the Revenue Budget 2020-21 in February 2020, there were a number of unknowns such as the cost of independent sector fees and the pay award. There is sufficient funding set aside in the contingency budget to meet these costs.

A further sum of £5.000m was set aside to meet in-year demand for the costs of social care. The Young People portfolio currently has an overspend of £0.519m, whilst Adult Care shows an underspend of £0.324m. It is not proposed to allocate any of the £5.000m contingency to departments at this time. This will be reviewed later in the financial year.

The costs of Covid-19 are substantial and this is reflected in the Budget Monitoring Report 2020-21 as at the end of May 2020. The Council expects Government to provide sufficient funding to meet the costs of Covid-19 and will continue dialogue with Government in expressing the concerns of the Council.

With sufficient financial support from Government to meet the costs of Covid-19, the Council should be in a position to manage the in-year budget.

A number of Section 151 Officers in England have indicated that they may be inclined to issue a Section 114 Notice. The Director of Finance & ICT does not consider that this is appropriate at this stage.

The concern is the Council's ability to set a balanced budget in 2021-22 and subsequent years. Local authorities need the funding certainty of a three-year settlement from Government to plan the delivery of its services, whilst seeking assurance that any Covid-19 related costs will be fully funded.

3 Considerations

In preparing this report the relevance of the following factors has been considered: legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

4 Background Papers

No

5 Key Decision

Yes

6 Is it necessary to waive the call-in period?

No

7 Officer's Recommendation

That Cabinet notes:

- i. The additional costs of Covid-19 and the projected funding gap;
- ii. The financial risks and uncertainties associated with Covid-19.

PETER HANDFORD

Director of Finance & ICT