

Agenda Item No 5

DERBYSHIRE COUNTY COUNCIL

IMPROVEMENT & SCRUTINY COMMITTEE - RESOURCES

17 September 2020

Report of the Director of Finance & ICT

**REGULAR COMMITTEE UPDATE ON FINANCIAL & BUDGETARY
POSITION AND INPUT INTO 2021-22 BUDGET PLANNING**

1 Purpose of the Report

To seek the Committee's views on the Council's financial position and budget planning for 2021-22.

2 Information and Analysis

Current Financial Position – 2020-21

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 and again on the 30 July 2020.

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 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 latest indication of potential in-year Covid-19 costs is of a significant overspend between £10m and £20m. The July budget monitoring report indicated a much higher overspend, however, the revised expectation on the costs of Home to School Transport and the

expectation that much of the recovery spend will be met by capital borrowing has reduced this figure. 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.

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.

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 2021-22 plus two further years;

- 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 is due to cease imminently. 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 longer term 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.

The costs of Covid-19 are substantial and this is reflected in the July Budget Monitoring Report. 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.

Preparation of Budget 2021-22

The production of the Council's budget is undertaken in accordance with the requirements of the Council's Constitution. The Constitution requires that a timetable is publicised by Cabinet for making proposals to the full Council in relation to the annual Revenue Budget, along with arrangements for consultation with stakeholders, which should be for a period of not less than six weeks. The proposed timetable is attached at Appendix 1.

A key element of the Council's budget setting process is consultation with stakeholders.

It is proposed to undertake the following consultation activities:

- Online "Your Council, Your Voice Survey". Hard copies will be available on request. A report to Cabinet and CMT in October 2019 set out proposals for the Your Council, Your Voice 2019 Survey. The online survey, which was developed using the findings from a number of focus groups held across the county at the end of September and early October 2019, combined both the budget and residents' consultations and ran for six weeks from 18 October 2019 to 1 December 2019. The 2020 survey will further build and develop this approach of positioning the planning cycle for the budget with that for the Council Plan. A key change is that the 2020 survey will take place earlier, running for six weeks during September and October 2020, enabling the findings to better align with the budget setting, Council Plan and service planning timetables.
- The consultation will be publicised as follows:
 - E-mail to respondents to past consultations who have consented to be contacted.

- Articles on the Council's website and in Our Derbyshire employee newsletter and Derbyshire Now.
 - Promotion in employee payroll letter.
 - Facebook paid-for campaign.
 - E-newsletters to community groups, parish councils, partner organisations and community publications.
 - Media releases and blogs.
 - Organic social media campaign.
- Whilst carrying out the survey has provided useful public budget consultation information and enabled a tracking of changes over time, information gathered is limited to direct responses to the questions posed and therefore gives a limited understanding of the reasons behind respondents' choices. It is therefore intended to undertake additional activity to explore a number of issues in greater detail. This will begin with a series of virtual conversations and focus groups with residents, which will commence in September 2020 and carry on through and during the survey period, to the end of October 2020. By inviting residents to be involved in this way, it is hoped that the Council will gain a better understanding of what residents think about the Council, their local area and which services are important to them and why.
 - Residents who have expressed an interest in being involved in further consultation will be invited to take part in the initial conversations. As part of the approach for 2020 it is proposed that weekly reports of headline survey findings will be reported to CMT with significant emerging issues becoming the subject of virtual focus groups carried out during the survey period. These will involve residents who have responded to the survey and who have agreed to take part in further consultation.
 - As a result of this combined approach, the Council will have a rich blend of both quantitative and qualitative information available, to not only support this year's budget setting, Council Plan development and service planning but to also form the basis for further work, to build a better insight into residents' views about the Council, their local area and services.
 - Statutory consultation with business ratepayers, corresponding with the East Midlands Chamber of Commerce (Derbyshire, Nottinghamshire and Leicestershire), the Federation of Small Businesses (FSB) in Nottinghamshire and Derbyshire and the CBI East Midlands on the Council's budget proposals.
 - Consultation with the trade unions at a Corporate Joint Committee.
 - Consultation with the Council's Improvement and Scrutiny Committee.

Cabinet will take account of the consultation when drawing up firm proposals to the Council. Results will be communicated after the consultation has ended.

As in previous years, an initial Equality Impact Assessment (EIA) will be undertaken at a corporate level. It is anticipated that this corporate assessment will help identify areas where there is a significant risk of adverse impact which would then be subject to a full equality impact assessment process. Alongside the budget consultation, the budget saving proposals in the updated Five Year Financial Plan will be considered to assess which proposals will need a separate targeted consultation with staff, the public and/or with current/potential service users. The outcomes of these processes will be reported to Council/Cabinet as part of the budget process and specific assessments/consultation outcomes reported to Cabinet before decisions are made on individual services.

Five Year Financial Plan

The Council's Five Year Financial Plan 2020-21 to 2024-25 (FYFP) is being updated during 2020-21 and the results will be included in a report later in the year.

The FYFP will be updated again as part of the budget setting process, to reflect the Government's Autumn Budget, the outcome of the Comprehensive Spending Review 2020 for the period 2020-21 to 2023-24 and the Provisional Local Government Finance Settlement, which are expected to be announced in November / December 2020.

Reserves

The Council has in place a Reserves Policy which sets out the framework within which decisions will be made regarding the level of reserves. In line with this framework the balance and level of reserves over the medium term are regularly monitored to ensure they are adequate to manage the risk of the Council. This covers both the General and Earmarked Reserves.

The results of a review of the General Reserves Position is included in the FYFP in a separate report to this meeting. A review of the Earmarked Reserves Position is being undertaken and the results will be included in a report to Cabinet in November 2020.

3 Other Considerations

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

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT Division, Room 137, County Hall.

5 Key Decision

No.

6 Officer's Recommendations

That Committee:

- (i) Notes the timetable for completion of the 2021-22 budget, including arrangements for consultation with stakeholders and the carrying out of an assessment of the need for full equality impact assessment on budget saving proposals.
- (ii) Notes the proposals for reviewing and updating the Five Year Financial Plan.
- (iii) Notes the arrangements for reviewing Earmarked Reserves and updating the General Reserve projections.

PETER HANDFORD

Director of Finance & ICT

APPENDIX 1

Budget Preparation Timetable

<i>Mid September 2020</i>	Deadline for 2021-22 budget savings proposals to be submitted to the Director of Finance & ICT approved by Executive Directors for direct inclusion in Revenue Budget Report.
<i>September - October 2020</i>	Public budget consultation, forming part of the "Your Council, Your Voice Survey".
<i>September - October 2020</i>	Virtual conversations and focus groups with residents.
<i>October 2020</i>	Results of public budget consultation available for informing the Revenue Budget Report and reporting in the Budget Consultation Report.
November - December 2020	Priorities for revenue and capital spending, budget savings and risks facing the Council are evaluated. Improvement and Scrutiny Committee consulted. Trades Unions consulted. Business Ratepayers consulted. Outcome of the Government's Autumn Budget and Comprehensive Spending Review 2020 analysed.
<i>December 2020</i>	Government announces details of Provisional Local Government Finance Settlement.
15 January 2021	Deadline for collection fund and business rates figures to be submitted to the Council by district/borough councils.
21 January 2021	Cabinet considers report on final revenue/capital settlements, results of consultation/budget priorities, reserves position and five year financial plan and determines budgets and Council Tax recommendations to Full Council.
31 January 2021	Deadline for taxbase figures to be submitted to the Council by district/borough councils.
3 February 2021	Council debates Cabinet recommendations/results of consultation and determines revenue/capital budgets and Council Tax level for 2021-22.
1 March 2021	Notify district/borough councils of precepts.

* Dates in bold are statutory deadlines. Date in italics is a key milestone in the timetable. These dates must be met. The other dates are for indication only.