

**DERBYSHIRE COUNTY COUNCIL****IMPROVEMENT AND SCRUTINY COMMITTEE****10 December 2020****Report of the Director of Finance & ICT****PRODUCTION OF 2021-22 BUDGET****1 Purpose of the Report**

To consult members of the Improvement and Scrutiny Committee as part of the process towards production of the 2021-22 budget, providing members with an update of the Revenue Budget forecast outturn for 2020-21 as at 30 September 2020 (Quarter 2), a summary of the Spending Review 2020, an update on Cost Pressure Bids received in respect of the 2021-22 revenue budget and information on meetings arranged with Cabinet Members to agree expectations of Council Plan priorities within the context of budget restraint.

**2 Information and Analysis****Forecast Outturn 2020-21**

The forecast outturn for 2020-21 as at Quarter 2 (30 September 2020), compared to controllable budget, is summarised below. The Covid-19 pandemic is having a significant impact on the Council's 2020-21 forecast outturn.

An overall Council underspend of £9.617m is forecast, after accounting for £45.037m of Ministry of Housing Communities & Local Government (MHCLG) Covid-19 emergency grant funding awarded and additional income of £4.853m compensation for lost sales, fees and charges income estimated to be claimable under the Government scheme announced on 2 July 2020.

A Council portfolio overspend of £11.835m is forecast, after the use of MHCLG Covid-19 grant funding for Covid-19 related costs forecast to be incurred in 2020-21.

	Budget	Use of MHCLG Covid- 19 and SFC Grant Funding	Adjusted Budget	Forecast Actuals	Projected Outturn	Variance
	£m	£m	£m	£m	£m	%
Adult Care	263.244	13.866	277.110	279.466	2.356	0.9%
Clean Growth and Regeneration	0.695	0.542	1.237	1.268	0.031	2.5%
Corporate Services	43.445	1.812	45.257	48.968	3.711	8.2%
Health and Communities (exc. Public Health)	4.213	2.474	6.687	5.248	(1.439)	-21.5%
Highways, Transport and Infrastructure	74.837	6.015	80.852	82.338	1.486	1.8%
Strategic Leadership, Culture and Tourism	12.209	1.038	13.247	12.476	(0.771)	-5.8%
Young People	119.205	8.276	127.481	133.942	6.461	5.1%
<b>Total Portfolio Outturn</b>	<b>517.848</b>	<b>34.023</b>	<b>551.871</b>	<b>563.706</b>	<b>11.835</b>	<b>2.1%</b>
Risk Management	66.487	(34.974)	31.513	12.397	(19.116)	-60.7%
Debt Charges	34.378	0.000	34.378	32.054	(2.324)	-6.8%
Interest and Dividend Income	(6.198)	0.552	(5.646)	(5.646)	0.000	0.0%
Levies and Precepts	0.343	0.000	0.343	0.343	0.000	0.0%
Corporate Adjustments	2.630	0.399	3.029	3.017	(0.012)	-0.4%
<b>Total</b>	<b>615.488</b>	<b>0.000</b>	<b>615.488</b>	<b>605.871</b>	<b>(9.617)</b>	<b>-1.6%</b>

The table above shows the Covid-19 related costs across the portfolios as £34.023m. This is the forecast additional cost and lost income of the Council's response up to the end of March 2021, 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 forecasted to be allocated to individual portfolios; these amounts are detailed below. Budget of £34.023m will be allocated to portfolios from the Risk Management Budget, where the emergency Covid-19 grant funding and reimbursement for lost

income from sales, fees and charges received from Government has been temporarily allocated, to match these costs.

### **Covid-19 Impacts: Forecast Costs and Additional Income by Portfolio**

	<b>Covid-19 Related Costs</b>	<b>LESS: Specific Funding for Portfolio Covid-19 Costs</b>	<b>Use of MHCLG Covid-19 and SFC Grant Funding</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Adult Care	45.107	(31.241)	13.866
Clean Growth and Regeneration	0.542	0.000	0.542
Corporate Services	1.812	0.000	1.812
Health and Communities	7.141	(4.667)	2.474
Highways, Transport and Infrastructure	6.615	(0.600)	6.015
Strategic Leadership, Culture and Tourism	1.038	0.000	1.038
Young People	9.791	(1.515)	8.276
<b>Total Portfolio Outturn</b>	<b>72.046</b>	<b>(38.023)</b>	<b>34.023</b>

### **Risk Management Budget**

There is a forecast underspend on the Council's 2020-21 Risk Management Budget of £19.116m, which represents the funding the Council has received, or is expected to receive, additional to its planned requirements and forecast Covid-19 related costs for 2020-21. However, there is considerable uncertainty about the impact on the Council's finances of future waves of the pandemic and any local or national restrictions imposed in the Autumn and Winter months, therefore caution is advised when considering this figure. Should costs rise in excess of current and future funding allocations, there will be a drawdown on the General Reserve will to fund the overspend.

### **Debt Charges**

The Debt Charges budget is projected to underspend by £2.324m. This is based on forecast interest payments, anticipated 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 £3.500m 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**

The Council utilises a range of investments, including pooled funds, to maximise its interest and dividend income. Interest and Dividends received on balances is estimated to breakeven after the allocation of £0.552m of MHCLG Covid-19 grant funding, to address a forecast decrease in income from investments in pooled funds of £0.938m and other lost income due to Covid-19. The interest base rate has remained at an historically low rate of 0.10% since 10 March 2020. Interest also accrues to the loan advances to Buxton Crescent Ltd.

### **Budget Savings**

The budget savings target for 2020-21 is £18.795m, with a further £6.332m target brought forward from previous years. The savings initiatives identified to meet this target currently fall short by £8.074m, therefore further proposals will need to be brought forward to ensure the Council continues to balance its budget. Of this total target of £25.127m, £11.771m is expected to be achieved by the end of the financial year. Therefore, there is a £13.356m forecast shortfall in achievement of budget savings. The resulting base budget overspend is offset to some extent by one-off underspends or is being met from one-off funding from earmarked reserves and additional grant funding received.

### **General Reserve**

The General Reserve stands at £49.845m as at 30 September 2020. The level of General Reserve is currently 9.14% of the Council's Net Budget Requirement. Commitments are held against this General Reserve balance, which were referred to in the Council's 2020-21 Revenue Budget Report. At that time the General Reserve, in a pessimistic forecast, was predicted to decrease to 2.2% (£12.793m) of the Council's Net Budget Requirement by 2024-25. The majority of chief financial officers consider 3% to 5% of a council's net spending to be a prudent level of risk-based reserves.

### **Spending Round 2020**

On 25 November 2020, the Government announced details of the Spending Review 2020 (SR 2020).

The SR 2020 sets out public spending totals for one year only, in order to prioritise the Government's response to Covid-19 pandemic and focus on supporting jobs. It is now hoped that there will be a comprehensive multi-year Spending Review in 2021.

The Office of Budget Responsibility (OBR) forecasts that Gross Domestic Product (GDP) will fall by 11.3% in 2020, before returning to growth in 2021. However, the economy is not expected to reach pre-pandemic levels until the end of 2022. By 2025 the economy is forecast to be approximately 3% worse-off than had been predicted before Covid-19. Debt is forecast to rise to 97% of GDP by 2025-26.

The key announcements in SR 2020, relevant to local government, were:

- £1.55bn for Covid-19 pressures to local authorities, with additional financial support, of £4 per head per month, for local authorities facing the highest ongoing Covid-19 restrictions, to support local public health initiatives through the Contain Outbreak Management Fund.
- A decision not to proceed with a reset of business rates baselines in 2021-22, with the continuation of the existing 100 per cent Business Rates Retention pilots for a further year.
- A final report setting out the full conclusions of the Business Rates review will be published in spring 2021.
- A delay of the next revaluation of Business Rates until 2023-24.
- A freeze of the Business Rates Multiplier in 2021-22, saving businesses in England an estimated £575m over the next five years. Local authorities will be fully compensated for this decision. Payment holidays in place for retail, hospitality, leisure and nursery sectors are also leading to reduced Business Rates receipts but again, local authorities are expected to be compensated.
- Proposal to allow up to a further 3% Adult Social Care Precept to be levied by social care authorities in 2021-22, in addition to the referendum threshold for general increases in Council Tax remaining at 2%, with the option to defer some of the Adult Social Care increase to 2022-23.
- £670m for Council Tax support to local authorities, with compensation for 75% of Council Tax collection fund deficits due to Covid-19 at January 2021. As previously announced, the remaining deficit can be spread over three years
- Revenue Support Grant to continue, with an inflationary increase.
- £1bn additional Social Care Grant from 2020-21 to continue, with an additional £300m for 2021-22. There is still some uncertainty about the continuation of a £410m Social Care Support Grant into 2021-22.
- Continuation of the £2.1bn improved Better Care Fund, pooled with the NHS to help meet adult social care needs and reduce pressures on the NHS.
- Proposals on the future of the adult social care system will be brought forward next year.
- Public Health Grant will be maintained.
- New Homes Bonus scheme will be maintained for a further year with no new legacy payments. A consultation on the New Homes Bonus is planned, with a view to implementing reform in 2022-23.

- Public sector workers earning less than £24,000 to receive a minimum £250 increase in pay and a 2.2% increase in the National Living Wage announced, from £8.72 to £8.91, with an extension to those aged 23 and over; otherwise a public sector pay freeze is recommended, with the exception of the NHS frontline.
- Reformation of the Public Works Loan Board (PWLB) lending terms, ending the use of the PWLB for investment property bought primarily for yield, with an immediate reduction in the PWLB Standard Rate and Certainty Rate of 1%. This restriction on property assets has no implications for the council's planned capital spend or borrowing needs.
- £2.2bn increase in core schools funding in 2021-22
- Additional £291m for further education.
- £220m for the Holiday Activities and Food programme for disadvantaged children in the Easter, Summer and Christmas holidays in 2021, which was previously announced as part of the Winter funding package announced by Government on 8 November 2020.
- £165m for local authorities through the Troubled Families Programme.
- £254m of funding to support rough sleepers and those at risk of homelessness during Covid-19, including £103m announced earlier this year for accommodation and substance misuse.
- Almost £19bn of transport investment in 2021-22, including £1.7bn for local roads maintenance and upgrades.
- Refreshed Green Book guidance on how to assess potential investments, to help achieve the aim of addressing regional imbalances.
- A new Levelling Up Fund, with cross-departmental funding of £4bn available for England, to be used to invest in high value local infrastructure projects making "a visible impact on people and their communities and will support economic recovery". Qualifying projects will be up to £20m, or more by exception, and could include bypasses and other local road schemes, bus lanes, railway station upgrades, upgrading town centres and community infrastructure, and local arts and culture. Projects must be deliverable within this Parliament and have the backing of the local MP. Up to £600m will be available in 2021-22. A prospectus for the fund will be issued and the first round of competitions will be launched in the New Year.
- A new National Infrastructure Strategy (NIS), outlining the longer-term vision for UK infrastructure and plans to create a new infrastructure bank, to catalyse private investment in infrastructure projects.
- £1.2bn to subsidise the rollout of gigabit-capable broadband.
- £260m for transformative digital infrastructure programmes.
- A new 3-year long £2.9bn Restart programme to provide intensive and tailored support to over one million unemployed people. It is unclear as to whether local authorities will be involved in administering this.
- A £500m hardship fund for local authorities to use to discount the Council Tax bills of all working age local Council Tax support claimants by £150.

- Investment of £573m in Disabled Facilities Grants and £71m in the Care and Support Specialised Housing Fund.
- £98m of additional resource funding to enable local authorities to deliver the new duty to support victims of domestic abuse and their children in safe accommodation in England.
- As announced earlier in the year, the Government will not proceed with the implementation of the Review of Relative Needs and Resources (formerly the Fair Funding Review) and 75% Business Rates Retention in 2021-22. In order to provide further stability, the reset of accumulated business rates growth will not take place in 2021-22.

The Society of County Treasurers (SCT) estimates a Provisional Local Government Finance Settlement date of 17 December 2020. At that point more detail will be provided on the funding the Council can expect to receive in 2021-22.

### **Cost Pressure Bids**

At the CMT meeting on 15 September 2020 it was reported that £39.958m of ongoing and £18.259m of one-off cost pressure bids relating to 2021-22 had been received. CMT requested departmental senior management teams to consider reducing the value of their bids. Ongoing budget pressure bids were reduced by £2.002m, however, CMT were requested to further review these updated Cost Pressure Bids. An updated list was subsequently determined by CMT as affordable to recommend that Cabinet agree for inclusion on the 2021-22 budget, which includes £16.829m of ongoing pressures, a £10.000m non-departmental social care ongoing contingency and £9.759m of one-off pressures. Consideration will be given as to whether to include a further general contingency pressure, although this may not be possible, and will depend on available funding. This still means that 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 2021-22 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. 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.

### **Council Plan Priorities**

At the Cabinet/CMT meeting on 18 November 2020, it was agreed that a series of meetings would be arranged with Cabinet Members to agree expectations of Council Plan priorities within the context of budget restraint. The meetings have now been arranged to take place within the first two weeks of December.

## Council Tax and Business Rates

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.

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.

The district and borough councils are estimating an average 1% reduction, effectively leading to a £3m collection fund deficit. Whilst the Government have confirmed that they will cover 75% of the loss and local authorities can spread the loss over three financial years, the Council in recent years has benefited from collection fund surpluses. Council Tax income is further exacerbated by a reduction in the Council Tax Base as there has been a significant rise in the number of Council Tax benefits and reliefs.

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. Generally, the impact may be between £1m - £2m. Details will not be confirmed by the district/borough councils until January 2021.

It is a fact of local government finance that the financial collapse of 2008 has resulted in a system which relies disproportionately on the local ability to raise finance to a level which is unprecedented since the Government recognised significant additional duties for local government as part of the reconstruction of the country after the second world war.

At the same time the Government has also introduced some of the strictest controls on the level of rises that it is possible for an upper tier/single tier council to levy without referring the increase to local voters through a referendum.

Note that since 2016-17 there has been the ability to raise an additional amount specifically for Adult Social Care purposes. This has added 2% to the referendum limited increase in 2016-17 through to 2020-21, in 2020-21 there was no normal Council Tax increase, just the 2% ASC precept. The Comprehensive Spending Review 2020 confirmed that local authorities have the flexibility to increase Council Tax by 3% to raise additional Council Tax income ring-fenced to adult social care. This is in addition to the general



referendum principle of 2%. Councils have the option of deferring some of these increases to 2022-23 although details are still awaited.

There are a number of issues to consider when looking at the need for a Council Tax increase. These include:

- Government finances are likely to be squeezed as the economy is required to fund the deficit accumulated as part of Covid-19. Reliance on Government grants into the medium term is risky as a result;
- The tax base hasn't shrunk as much as initially predicted due to Covid-19 impacts and it remains a long term, sustainable source of funding;
- Several taxes are likely to rise, and Council Tax will only be a tiny share of that more widespread increase;
- The medium-term pressures indicate a significant increase in funding is necessary and budget reductions are proving increasingly difficult to find;
- Most councils appear likely to raise their Council Tax by the maximum allowed as in previous years;
- The absence of medium-term spending review certainty makes the Chief Financial Officer statement in the budget report and the external auditors view in future Value for Money conclusions more likely to be problematic;
- The newly adopted CIPFA Financial Management Code will be harder to adopt and achieve a reasonable level of certainty on financial sustainability;
- Reserves will continue to decline, without mitigating measures;
- It will be difficult to find further funding to help with recovery from Covid-19.

### **3 Recommendations**

That members:

- 3.1 Note the Revenue Budget forecast outturn for 2020-21 as at 30 September 2020 (Quarter 2).
- 3.2 Note the key announcements in SR 2020, 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 Notes the actions taken in respect of the shortlisting and agreement of Cost Pressure Bids to support the budget production process.
- 3.5 Notes the meetings arranged to agree expectations of Service Plan priorities within the context of budget restraint.

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