

Council's Finances and Budget Risks – ‘State of the Nation’ Position Going into Medium Term Financial Plan 2020/21 – 2022/23

SUMMARY

- 1.1 This report outlines the current ‘state of the nation’ position on Council’s finances and budget risks for in the Medium Term over the period 2020 - 2023.
- 1.2 Key steps in the process are summarised below:
 - Current Medium Term Financial Planning gap
 - National context
 - Local context
 - Current budget risks

RECOMMENDATION

- 2.1 To note the information contained within this report regarding the Council’s finances and the budget risks and forward any comments to Council Cabinet.

REASONS FOR RECOMMENDATION

- 3.1 To provide an overview to Corporate Services Scrutiny Board.

SUPPORTING INFORMATION

- 4.1 **The Current Medium term Financial Planning gap**
- 4.2 The current Medium Term Financial Plan was agreed by Full Council on 27 February 2019, identified the need for £12.966m of permanent savings over the four year period 2019/20 to 2022/23 and a budget gap of £7.458m. Work is ongoing to identify solutions to fill the gap and any new pressures that may be forthcoming.

4.3	Permanent Savings	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
	Total	(7,183)	(3,719)	(1,436)	(658)	(12,996)
4.4	Budget Gap	2019/20 £000's	2020/21 £000's	2021/22 £000's	2022/23 £000's	Total £000's
	Total	-	(5,075)	(2,383)	-	(7,458)

4.5 For 2019/20, £7.183m of savings were identified and are currently being tracked for delivery. Delivery of 2019/20 savings will continue to be monitored and managed by officers and regularly reported to Corporate Leadership Team and Cabinet on a quarterly basis within the forecast of out-turn reports.

4.6 The national context

4.7 Brexit is causing delay to many political decisions including the Local Government Spending Review. The Chancellor announced that the Spending Review would be revealed later in the Autumn and would cover the period 2020/21 to 2022/23. Brexit uncertainty could change this to a single year (2020/21).

4.8 Forecasts about what might happen are speculative. A one-year roll-forward would be more than just an additional “fifth year” on the current four-year settlement and could follow the same themes for example more one off funding to Social Care.

4.9 A knock-on effect of a one-year spending review is likely to be the delay for a further year of the promised Fair Funding Review and reform of the Business Rate Retention Scheme. Redistribution could take place without a full spending review but it would be prudent if some extra funding could be put into the system to smooth-over changes. Additional funding would help to fund a ‘damping’ or transitional scheme.

4.10 In Derby, like most unitary, metropolitan and county councils, we are facing growing demand and cost pressures in adult social care and children’s services. The Local Government Association (LGA) has calculated that during 2019/20 there will be a £1.9 billion shortfall in children’s services funding and a £2.2 billion funding gap in adult social care services; this is supported nationally by the professional Association of Directors of Children’s Services and Adult Social Services. Nationally there are increasing numbers of children being taken into care, and last year in Derby we experienced a 41% increase in care applications.

4.11 There is a growing and compelling evidence base across the adults and children’s sector from the likes of the Association of Directors of Adults Social Services, the Association for the Directors of Children’s Services and the LGA about the sustained pressures in the sector, and there is a range of work underway, nationally and locally in Derby, to influence government thinking regarding sustainable levels of resourcing.

4.12 The local context

- 4.13 The Council's Medium Term Financial Strategy is shaped by the national context but also by the need to respond to service demands from our communities at the local level, aligned to the Council Plan, coupled with aspirational, affordable developments and on-going maintenance through capital and revenue investment.
- 4.14 Emerging pressures will also need to be taken into account during the planning and budget setting process. For example, the increased costs of the A52 project and the Children's overspend position in 2018/19 which has negatively impacted on the Council's reserves position, which will need reviewing and replenishing from a financial sustainability perspective.
- 4.15 Derby has a relatively limited ability to raise resources through local council tax when compared to other authorities. Council tax income is limited by the high proportion of low value dwellings where 51.3 per cent of the Council's domestic properties fall into band A which is the lowest band and therefore the occupiers pay the lowest level of council tax charges.
- 4.16 The Council is subject to emerging financial pressures arising from changes in legislation and new areas of responsibility, including 'Better Care', the Care Act, and the Children and Social Work Act 2017. In some cases, the government allocates additional funding to the Council to support any 'new burdens', but this is not always the case or sufficient to meet statutory requirements. Financial pressures arising from these issues will therefore also be considered during the planning process.
- 4.17 **Budget Risks**
- 4.18 A critical element of the Medium Term Financial Strategy is to ensure that the financial consequences of risk are adequately reflected in the Council's finances.
- 4.19 As with any plan or forecast the risk of variances and uncertainties exists. Careful planning can reduce risk but the Council must be aware of the potential variations that can arise and have an identified strategy for dealing with resulting pressures. The risks to the Medium Term Financial Plan can effect in year or future years' budgets.
- 4.20 The Section 151 Officer reviews the appropriateness of reserve levels to mitigate risk in the Cabinet Report on the Robustness of Estimates and Adequacy of Reserves. Longer term planning risk and changes to future funding assumptions are continually reviewed and updated in the ongoing Medium Term Financial Plan.
- 4.21 Funding Risks
- 4.22 **Fair Funding Review** – The Government is reviewing each council's need to spend on services, with a view to redistributing funding between councils. This has been delayed because of other priorities, including Brexit negotiations and there is a risk that suitable information for planning will not be available until the end of 2019. The review is in line with the move for Councils to retain more business rates and become less reliant on Government grant. The assumptions in our current financial plan are based on previous year's reduction in grants with the assumption that any changes will come with transitional arrangements for funding. There may also be the need for some changes and transfer of responsibilities for services to be delivered.

- 4.23 **Specific Grants** – Revenue Support Grant has only been confirmed until 2019/20, and uncertainty remains over other specific grants. To try and mitigate this, the current plan reflects reductions in grants based on previous years’ activities and known intelligence.
- 4.24 **Business Rates**– As the value of business rates retained in Derby is below the Government’s formula assessment, the Council receives a ‘top up’ grant. Any revaluation of business rates and multiplier change will affect the total rates yield and therefore the amount retained. Business Rates is forecasted using the latest intelligence and past performance to mitigate this and the position is reported to cabinet quarterly for monitoring purposes.
- 4.25 **Retained Business Rates** –Volatility may result in lower levels of business rates than currently forecast, especially considering any unknown impacts of our Business because of Brexit. A further key risk area is ratepayer appeals against how much they are being charged, as they are unpredictable to forecast and can be backdated over several years. The Council does hold a provision for backdating successful appeals and statutory regulations for timing of recognising variations in business rates allows the Council to build these into our future Medium Term Financial Plan.
- 4.26 **Adult Social Care** - The publication of the Government’s promised Green Paper has been delayed several times, it was originally due to be published in the summer of 2017. The latest position is that it will be published “at the earliest opportunity”, although the Health and Social Care Secretary had previously said in January 2019 that he “certainly intend for that to happen before April 2019. The rationale for the Green Paper was to explore the issue of how social care is funded; the current Medium Term Financial Plan does not contain any assumptions on this and will be updated as appropriate.
- 4.27 Prior Year Risks
- Savings Risk** - the budget for 2019/20 requires significant permanent budget savings of £7.183m to be delivered to bring the budget into balance. The risk of not delivering these savings is being monitored and reported to Corporate Leadership Team and Cabinet. Risk must be mitigated by directors owning and delivering their savings commitments or alternatively identifying alternative delivery savings within appropriate timescales.
- 4.28 Cost Change Risk
- 4.29 **General Inflation** – The current Medium Term Financial Plan includes a range of inflation assumptions based on the latest intelligence and indicators. However, levels of inflation will continue to be monitored to assess the level of risk and how any such risks could be in the first instance, addressed within existing budgets through monthly monitoring and forecasting and managing spend or built into future iterations of the plan.
- 4.30 **Energy and Fuel Price Increases** – this area of inflation has historically been particularly volatile. Inflation on fuel has been relatively low; however there still remains the risk of unpredicted sudden price changes as a result of international

events which will need to be addressed through managing existing budgets in the first instance then potentially built into future iterations of the plan.

- 4.31 **Pension costs** – the cost of pensions is reviewed on a cyclical basis. Any changes in legislative requirements or repayment terms to address the pension deficit could affect the plan.
- 4.32 **Demand Led Services** – The plan includes new pressures for demand led services, including Social Care demographic changes. These forecasts are based on official demographic statistics and local, national intelligence and will be refreshed accordingly. It is expected that in some instances this will be mitigated by further one off funding as well as service redesign until an appropriate funding approach is established by Government from for example – the "Green Paper" and the Fair Funding approach. Other demand led services will need to continue to manage budgets accordingly to militate against emerging pressures.
- 4.33 **Treasury Management Risks** - The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 4.34 **Spending Risk** - The Council needs to continue to operate an essential spend rule whereby spend must only be considered if absolutely necessary and not just because there is sufficient budget. This will potentially help mitigate any unforeseen pressures in current and future year budget allocations.

OTHER OPTIONS CONSIDERED

- 5.1 None. There is a statutory requirement to set a balanced budget for 2020/21.

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director Other(s)	Don McLure <div>17 June 2019</div>
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