

Financial context

This is a very challenging time for Local Government finance. 2019/20 is the final year of the current four-year settlement. The government recently published its new Spending Review (SR19), which is for 1 year only (2020/21). This single annual settlement only deals with funding in the short term and does nothing to alleviate the level of uncertainty in local government funding going forward.

On top of all these changes we of course also have a huge level of uncertainty around 'Brexit' and what it will mean nationally and locally.

This level of uncertainty makes financial planning over the medium term very difficult.

Funding

Core Funding

The Council's core funding normally consists of:

- Revenue Support Grant (RSG) – a general grant from Central Government;
- Business Rates Retention Scheme Local Element – 9% of the Business Rates paid by businesses in Devon that is collected by the District and City Councils; and
- Business Rates Retention Scheme Top-Up – 50% of the Business Rates paid by businesses in Devon, along with a Tariff is passed by the District Councils to Central Government. Central Government redistribute these sums to authorities based on a Government assessment of need.

In February 2016 the Government announced the Core Funding that the authority would receive in 2016/17 and provided indicative figures for 2017/18 to 2019/20. It also made an offer to Local Authorities; the Government would honour this four-year settlement if the Authority produced an Efficiency Statement and submitted it to Government for approval. The County Council took up this offer, not because it thought it was a good settlement, far from it, but because it gave a measure of certainty. The Government has honoured these settlement figures for 2017/18 to 2019/20. This did of course mean a significant ongoing reduction to our funding.

This four-year arrangement ends in 2019/20 and there were no indicative figures for future years.

Revenue Support Grant (RSG) was once the main Central Government funding to Local Government but for the County Council is reduced to almost nil in 2019/20. The Medium Term Financial Strategy (MTFS) assumes that the small residual RSG in 2019/20 of £537,000 will reduce to zero from 2020/21 and remain at that level.

The level of uncertainty around the level of future funding that the Authority can expect means that the MTFS is based on assumptions. Since the start of austerity in 2010 the Authority's Core Funding has reduced by an average of 11% per annum. The MTFS assumes that this level of year on year reduction will continue from 2020/21 to 2022/23. It is impossible to gauge if this is too pessimistic or even too optimistic but seems reasonable and prudent in the current climate.

Council Tax

There has been in place for some years legislation that prevents Local Authorities from increasing Council Tax by more than a specified limit without seeking approval from residents via a referendum. Although this limit is set by Central

Government annually it had remained at 2% for many years. However, for 2018/19 and 2019/20 the Government increased the limit to 3% which it will review for future years in the context of prevailing inflation. At the timing of writing, government is consulting Councils on a referendum limit of 2% for the 2020/21 financial year.

The other important factor in relation to Council Tax is the growth in the Council Tax Base. In 2016/17 and 2017/18 the Base had increased each year by 1.7% and in 2018/19 the Base increased by 1.5%. However, the Base increased by only 1% in 2019/20. This downward trend for annual increases in the Base is in line with national projections.

At current council tax levels, a change in council tax base of 0.5% equates to just under £2 millions of council tax income.

Adult Social Care Precept

New powers were introduced in 2016/17 that allow authorities with Adult Social Care responsibilities to increase Council Tax by 2% each year between 2016/17 and 2019/20 in addition to the increase permitted before a referendum is required. In 2017/18 the Government announced a change to this power. Social Care Authorities are now able to increase Council Tax by 3% in each of 2017/18 and 2018/19 in addition to the referendum limit. However, the increase over the three year period of 2017/18 to 2019/20 must not exceed the original power of 6% over this term. The sums raised must be ringfenced for Adult Social Care with a certification required by the County Treasurer confirming that this requirement has been complied with.

The County Council applied 3% in 2017/18 and 2% in 2018/19 leaving 1% available for 2019/20.

At the timing of writing, government is consulting Councils on a further Adult Social Care precept increase of 2% of Council Tax for the 2020/21 financial year.

Spending and Balancing the Budget

Pressures, Savings and Efficiencies

The ongoing reduction in the authority's core funding coupled with increasing price and demand pressures, particularly in Social Care, makes the balancing of the budget increasingly difficult each year. This is of course not unique to Devon, it is a national issue across Local Government, but that is little consolation.

Adult Social Care continues to face the challenges of providing services for an increasing and ageing population, with people in Devon aged over 85 projected to increase by 2.4% next year and 16% over the next 5 years.

There is continuing growth in demand for disability services, partly driven by children in care transitioning to adulthood. Each year around 180 young people require ongoing support as adults, with required levels of support varying enormously.

There are also significant cost pressures in the care markets, largely due to increasing labour cost, and the need to ensure sufficient supply of care of the right quality is a continual challenge. The impact of the National Living Wage (NLW) increase in April is a key driver of price inflation in the care markets as it impacts directly on the price of labour. NLW is estimated to add in the region of £5.6 millions to the cost of adult social care services in 2019/20 alone. Workforce recruitment and retention in the care markets remains an issue, with a particular shortage of nurses and care workers, which adds pressure to unit costs.

Education Services and Social Care services provided to both Adults and Children are operating under huge financial strain. The need for these services is very

great and growing both in terms of cost and complexity. The Council will need to show great resolve and ingenuity to make sure it maintains the correct balance between funding services sufficiently and retaining its financial sustainability.

Savings of £13.398 millions identified in 2019/20, across the Council, take the total level of savings for the Authority since 2010 to just under £265 millions.

Better Care Fund & Pooled Budgets

The Better Care Fund was first introduced in April 2015 and enables the local authority and Clinical Commissioning Groups (CCGs) to pool budgets in support of an integrated spending plan that focuses on people-centred solutions and removes organisational boundaries and siloed funding streams.

It is the most significant financial vehicle that national government uses to promote the integration of health and social care as part of its national policy agenda. The Devon pooled budget currently amounts to £101.97 million and is hosted by the Council.

The Council along with its CCG partners is committed to further integration of budgets where this achieves better outcomes for its residents and has the scope to deliver efficiency savings for the local health and social care economy.

In the spring budget 2017 the government announced additional monies for adult social care branded as the iBCF and this is subject to the same arrangements as the original BCF. In October 2019 it was also announced that the funding previously ear-marked specifically for winter pressures would be added to the iBCF funding for 2020/21.

The BCF and the iBCF funding comes with four national conditions that must be met for the plan to be agreed nationally:

- The plan must be jointly agreed between the council and the CCGs;
- The CCG financial contribution to social care must be agreed. In Devon this is currently £13.5 million;
- There must be agreement to invest in NHS commissioned out of hospital services; and
- There must be a plan to manage transfers of care across the health and care system.

In addition, the plan has four performance indicators (metrics) that are measured and reported each quarter to national regulators:

- Reduction in unplanned (non-elective) admissions
- Rate of admissions to residential and nursing care
- Reablement success – the proportion of older people (65+) who were still at home 91 days after discharge from hospital
- Delayed Transfers of Care (DTC)

Improving DTC rates has been a significant priority nationally with each area being closely monitored on performance. We need to comply with the national conditions and meet ongoing performance targets as part of national monitoring of performance.

Locally, there is focus on:

- Supporting early discharge planning by expanding the reach of the discharge hub and proactively supporting people home from hospital;
- Improving patient flow through the hospital;

- Developing a 'one team' approach driving forward our plans for integration including primary care, the voluntary sector, mental health services; and the independent sector;
- Developing the home first approach and maximising impact from the enhanced health in care homes workstream;
- Enhancing our urgent and intermediate care / reablement services to build both capacity and skills, extending hours of service across the system but particularly in community teams to move towards embedding a 7-day service and avoid peak admission and discharge times;
- Increasing the scope and availability of residential and nursing care placements through discretionary purchase of beds to increase capacity;
- Building on the skills of staff within care homes but also investing in the support we wrap around through such things as enhanced therapy support and proactively targeting primary care support to the sector;
- Extending the capacity of trusted assessors;
- Building the scope and reach of our community equipment and telecare and assistive technology opportunities.

How resources are deployed in Adult Care and Health

For 2019/20, Adult Care and Health has a gross expenditure budget of £301.244millions. This is the total level of budgeted expenditure for the year and includes £68.645millions of income, which is primarily client contributions to the cost of their care, as well as contributions from the Better Care Fund and other NHS income.

This means that the net budget for Adult Care and Health, which represents the budgeted cost of the service to the Council, is £232.599millions for 2019/20.

The net budget for 2019/20 is an increase of £4.548millions when compared to 2018/19, after taking into account a reduction of £5.103millions in the iBCF supplementary grant from government for 2019/20. That is to say, had the supplementary iBCF grant remained at the same level as 2018/19, the budget would have increased by £9.651million (4.2%).

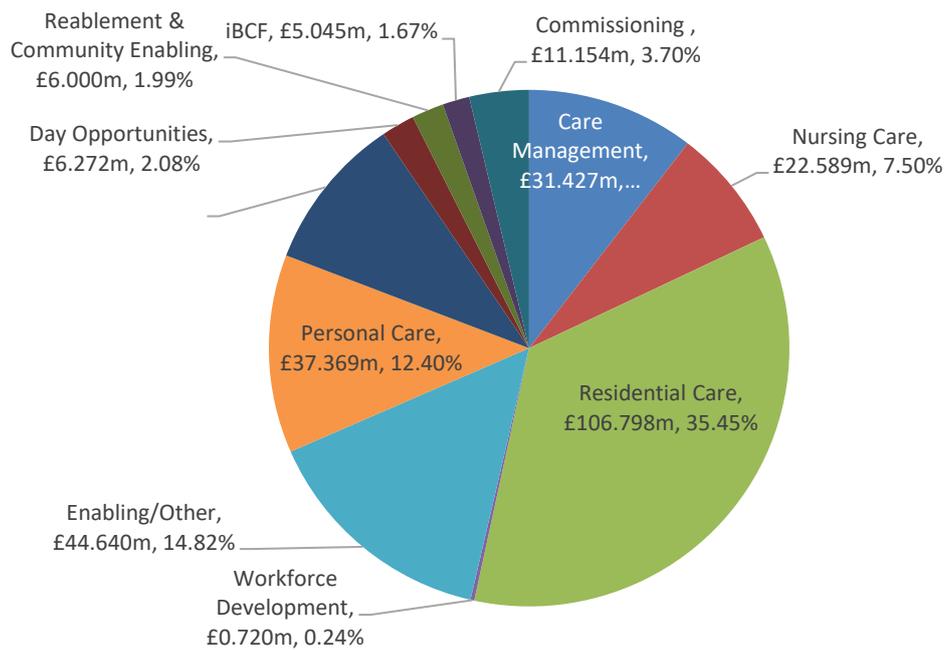
NHS Devon Clinical Commissioning Group spends approximately £65.5 m with the independent sectors and supports 2451 people.

By service type

The pie chart below sets out the categories of expenditure in the Adult Care & Health budget for 2019/20.

Bed based services are still the largest area of spend with almost 43% of the budget.

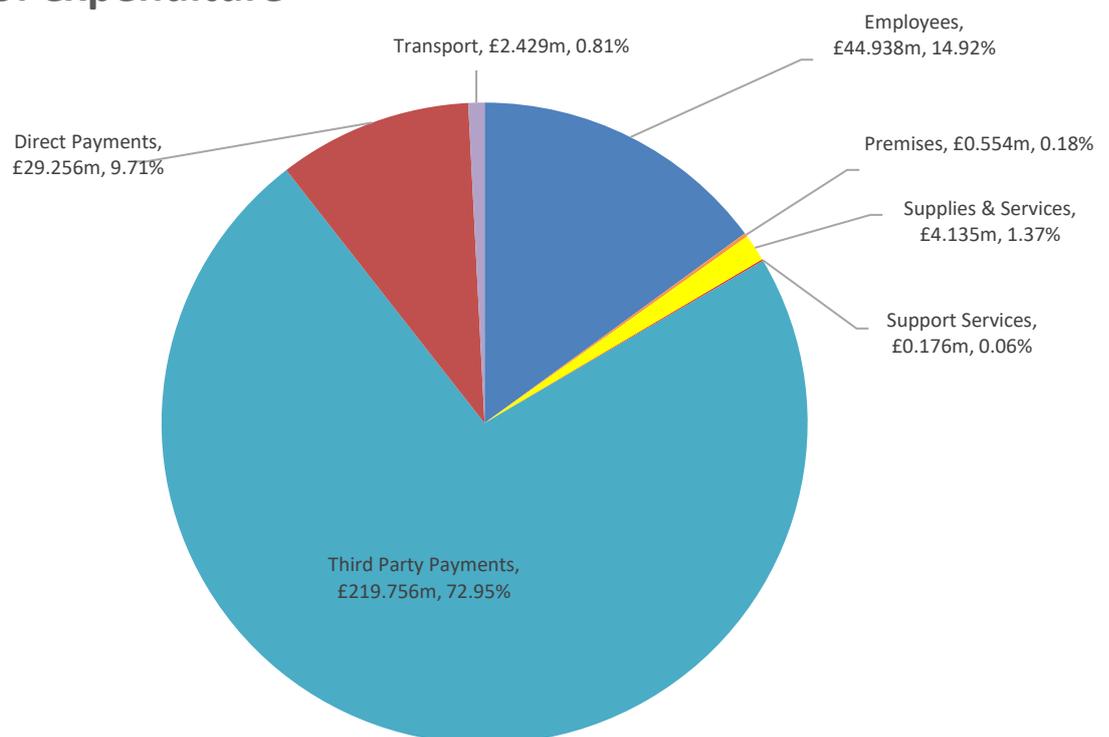
Service expenditure



The next chart details with whom the budget is spent. The key message from this chart is that almost three quarters of the gross Adult Care & Health budget is spent directly in the independent sector.

When Direct Payments are taken into account, £4 in every £5 of the adult social care budget goes into the independent sector.

Type of expenditure



The Financial Outlook

At the time of writing the government had only recently announced its Spending Review. This is a single year Spending Review which leaves great uncertainty in the future funding levels for local government.

On the face of it, the Spending Review has provided something of a reprieve, as there is continuation of the improved BCF and other grants, as well as a new social care grant of £1billion nationally.

However, as this Spending Review is only for one year, great uncertainty still remains beyond next year extending to the sustainability of the funding levels detailed in the Spending Review, whilst pressures and demands on the Council's services continue to grow.

Brexit too could still have short term destabilisation effects and is a rapidly changing backdrop to all current planning arrangements.

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