

BUDGET MONITORING 2021/22
Report of the Director of Finance (Designate)

Please note that the following recommendations are subject to consideration and determination by the Cabinet (and confirmation under the provisions of the Council's Constitution) before taking effect.

Recommendation:

- a) That the month 6 budget monitoring forecast position is noted;**
- b) That progress on the delivery of the Dedicated Schools Grant Management Plan is noted; and**
- c) That the main points from the Spending Review 2021 are noted.**

1. Introduction

- 1.1. This report outlines the financial position and forecast for the Authority at month 6 (to the end of September) of the financial year.
- 1.2. At month 6 it is estimated that budgets will overspend by just over £7 million, a reduction of £300,000 from month 4.
- 1.3. The Dedicated Schools Grant projected deficit, relating to Special Educational Needs and Disabilities (SEND), is forecast to be £36 million. In line with Department of Education guidance this deficit will not be dealt with this financial year but carried to future years.
- 1.4. Central government has continued to provide a number of grant funding streams this year to help support Local Authorities during the pandemic. The confirmed additional funding Devon County Council is expecting to receive directly this financial year is currently £36.6 million, in addition to the £25.6 million carried forward from 2020/21.

2. Revenue Expenditure Adult Care and Health Services

- 2.1. Adult Care and Health services are forecast to overspend by £5.2 million, a reduction of £237,000 from month 4. This position includes £3.2 million of budgeted savings. Service managers are assessing what is still deliverable in light of the additional pandemic burdens that continue to be placed on staff. For any shortfall a request for support from the pandemic support grant is anticipated.
- 2.2. Adult Care Operations is forecasting to overspend by just under £5.4 million, this is a mix of price and volume pressures. Within Learning Disabilities and Autism higher demand has continued into this year with client numbers in these areas being 104 more than the budgeted level of 3,569. Older People is also experiencing significant pressures, mainly due to an increase in the number of nursing placements which are 28 more than the budgeted level of 516. Adult Commissioning and Health and Mental Health is forecast to underspend by £168,000.

3. Revenue Expenditure Children's Services

- 3.1. Children's services are forecasting an overspend of £7.3 million an increase of £500,000 from month 4. However, this figure does not include the projected deficit of £36 million on Special Education Needs and Disabilities (SEND).
- 3.2. Children's Social Care is forecast to overspend by £4.6 million, an increase of £476,000 from month 4. The forecast includes budgeted savings of £298,000 still considered deliverable. £1.7 million of the planned savings have been achieved to date.
- 3.3. The forecast also includes an overspend of £1.8 million relating to children in residential care placements, and more children being placed with independent Foster Carers and Independent Supported accommodation than budgeted. Social Work Staffing and Strategic Management are forecasting an overspend of £1.9 million due to agency staff costs. Special Guardianship Orders and Adoption allowances, Early Help, and the Atkinson Secure Children's Home combined are forecasting a total overspend of £1.3 million.
- 3.4. The non-Dedicated Schools Grant (DSG) element of Education and Learning is forecasting an overspend of just under £2.7 million. Pressures continue within school transport, the result of rising costs associated with contract changes, and additional SEND personalised transport routes linked to continued growth in numbers.
- 3.5. Within the DSG High Needs Block, SEND is forecasting an overspend of just over £36 million, an increase of £2.9 million from month 4.
- 3.6. The Council, in line with government guidance issued in 2020/21, is holding the SEND deficit in an adjustment account on the balance sheet. A Statutory instrument that states all DSG deficits carried over from 2019-20 into 2020-21, and any subsequent deficit positions for the term of the override, are to be moved to an unusable reserve through a statutory accounting adjustment until April 2023 has now been enacted. In practice this means that the deficit does not have a negative impact on the assessment of the County Councils financial sustainability.
- 3.7. At the end of 2020/21 the DSG reported a cumulative deficit of £48.9 million which was carried forward as a deficit reserve as per government guidance. When combined with the current year forecast the deficit is expected to be £84.9 million by the end of 2021/22.
- 3.8. Education and Learning and Finance have developed a shared management plan which seeks to ensure children with SEN receive the support they need, whilst also addressing the deficit. Together we have held several discussions with the Department for Education regarding our detailed management plan. Through this process and their feedback, we have all recognised that the original financial assumptions underlying the savings identified were ambitious. These assumptions are therefore being reviewed. We will continue to hold discussions with the Department.
- 3.9. For 2021/22 the management plan contains a savings target of £6.2 million. The forecast at month 6 is that £2.8 million will be delivered. £3.4 million is now identified as undeliverable this financial year. The 0-25 team are continuing to see demand from schools for new EHCP requests. This has had a significant impact on the ability of the team to reduce the demand for EHCPs by supporting children within mainstream settings. This continuation of significant demand growth has resulted in this key workstream being

unable to deliver as planned this financial year. As a result, we are reviewing the management plan profile and workstreams.

- 3.10. The Department for Education have also confirmed they are in detailed discussion with the second tranche of Education Authorities with the highest percentage DSG deficit compared to allocation. Devon County Council is not part of this programme at this time.

4. Revenue Expenditure Highways, Infrastructure Development and Waste

- 4.1. Highways, Infrastructure Development and Waste is forecasting an underspend of £214,000 which is the result of additional income within the Engineering, Design Group. Waste tonnages have increased significantly during the year, but the service is currently expected to outturn to budget. Highways is on track to fully deliver planned works programmes within budget, although this could be impacted if extreme weather is encountered over the winter period.

5. Revenue Expenditure Other Services

- 5.1. Communities, Public Health, Environment and Prosperity (COPHEP) are forecasting an underspend of £1.2 million. The transport fleet has incurred lower fuel and maintenance costs than budgeted as the pandemic continues to reduce activity, the County Hall travel plan remains on hold following the pandemic and a number of programmes within Communities have faced significant delays. Corporate Services are forecasting an underspend of £684,000 where pressures within Legal and HR are being more than offset by the forecast underspends within Digital Transformation and Business support.
- 5.2. Non-service items, which include capital financing charges and business rates pooling gain, are forecast to underspend by £3.4 million.

6. Capital Expenditure

- 6.1. The approved capital programme for the Council is £217.8 million. This figure incorporates amounts brought forward from 2020/21 of £46.2 million, and in year additions of £24.3 million. Of this increase £22.6 million is externally funded.
- 6.2. The year-end forecast at Month 6 is £191.3 million of which £26.5 million is externally funded. Slippage is forecast at £16.7 million.
- 6.3. Wherever possible slippage is offset by the accelerated delivery of other approved schemes within the capital programme. The main areas of net slippage can be attributed to scheme variations and programme delays in Planning, Transportation and Environment, which reflects the complexity of the major schemes within this service area.
- 6.4. Material and labour price increases are being experienced which are starting to detrimentally impact the delivery costs and tender prices being returned within the capital programme. This is currently being managed within existing funding and will continue to be monitored.

7. Debt Over 3 Months Old

- 7.1. Corporate debt stood at £2.4 million, being just under 1.1% of the annual value of invoices, against the annual target of 1.9%. The balance of debt owed will continue to be pursued with the use of legal action where appropriate to do so.

8. Covid-19 funding

- 8.1. In response to the COVID-19 outbreak the Government has continued to put in place a number of grant funding streams to help support Local Authorities in responding to the pandemic, most are a continuation of arrangements established last year. To date Devon County Council is in direct receipt of pandemic related grants with a confirmed value of £36.6 million.
- 8.2. In addition to the funds received this year the Authority was able to carry forward £25.6 million of funding received last year. This mainly related to Contain Outbreak Management Funding, Test and Trace Funding and the Covid support Grant.
- 8.3. These grants continue to have separate terms and conditions and differing levels of flexibility around their application and use, and plans continue to be developed for application of the funding.

9. Spending review 2021 (SR21)

- 9.1. The Chancellor of the Exchequer, Rishi Sunak, presented the Spending Review to the House of Commons on the 27th October. SR21 sees a return to a multi-year Spending Review and covers the three years from 2022/23 to 2024/25. It is expected that the Provisional Local Government Finance Settlement due in December will also cover three years which will give the authority greater ability to plan over the medium term.
- 9.2. The Spending Review provided some headline investment figures but no indication of the formula that will be used to distribute funds to Local Authorities, this will follow as part of the Provisional Settlement.
- 9.3. The main points from the Chancellor's Budget Statement that are relevant to local government are set out below:
 - 9.3.1. New grant funding for local government has been announced over the next three years, worth £4.8 billion. The details of how this funding will be distributed and which services it will be allocated to were not included in the speech. There was also no announcement on funding reform, and no confirmation that the reset would be delayed beyond 1 April 2022.
 - 9.3.2. The Spending Review document confirms that the Council Tax referendum limit is expected to remain at 2% per annum for the Spending Review Period, with an additional 1% per annum flexibility for social care authorities to increase the Social Care Precept.
 - 9.3.3. The Business Rates multiplier will, again, be frozen, rather than rising by inflation, as in 2021/22. It is expected that this will be funded by government through a further increase to the multiplier cap compensation grant. The conclusion of the review of business rates was also published. This includes 3-yearly revaluations from 2023, and a new business rates improvement relief, which, from 2023, will allow

businesses to make improvements and pay no extra business rates for 12 months (it is expected that this relief will also be funded for local government).

- 9.3.4. Retail, Hospitality and Leisure relief will be extended at 50% for 2022/23, subject to a £110,000 cash cap. This is £5,000 higher than the cap currently applicable to the 66% relief to businesses. The government estimates the relief will be worth £1.7 billion to business. Again, it is expected that this will continue to be fully funded for local government.
- 9.3.5. £560 million will be provided for youth services as part of the levelling up agenda. There will also be new funding for community football pitches (£200 million+), to support museums and libraries (£800 million), and for 100 new 'pocket parks' on small areas of derelict land.
- 9.3.6. The public sector pay freeze will not continue, and the intention is to return to the usual system of independent pay commission recommendations for 'fair and affordable' pay rises over the whole Spending Review period. The minimum wage will be increased from £8.91 to £9.50 per hour, accepting the Low Pay Commission's recommendation.
- 9.3.7. The OBR forecasts predict continued higher inflation, with CPI expected to average 4% over the coming year. The government consider that this high inflation relates to demand exceeding supply (as demand has recovered more quickly than suppliers can re-mobilise, as economies reopen) and also to the surge in demand for energy, despite continuing disruptions to supply.
- 9.3.8. Economic recovery is now expected to be quicker, with a return to pre-COVID levels expected at the turn of the year (earlier than was expected in March). The estimates of the impact from COVID have been reduced from 3% to 2%, and the peak unemployment is now expected to be 5.2% (down from the 12% predicted in March).
- 9.3.9. The government will publish a new Charter for Budget Responsibility (which will be subject to a vote in Parliament). The Charter will include two rules, which must be met by the third year of a fiscal period: that underlying Public Sector Net Debt (excluding the Bank of England) must be falling as a percentage of GDP, and, in normal times, the state should only borrow to invest (with everyday spending being paid through taxation). Today's announcement meets these rules. There will also be a target for 3% of GDP to be committed to capital spending.

10. Conclusion

- 10.1. As stated in the report the forecast overspend at month 6 is in line with month 4. It is important to note however that the significant pressures experienced in both Adult Care and Health and Children's Services are continuing and the situation will need to be monitored closely in the coming months.
- 10.2. Government funding to support Local Authorities in responding to the Pandemic continues to be significant, but the ever-changing landscape we are faced with continues to present service delivery challenges and financial risks.
- 10.3. The continuing growth in demand for new EHCP requests and the impact on delivery of the management plan is concerning and planned interventions need to be reviewed and closely monitored.

Angie Sinclair, Director of Finance

Electoral Divisions: All

Cabinet Member: Councillor Phil Twiss

Local Government Act 1972: List of Background Papers

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