

---

## Financial Outlook

### Overview – National Economic Picture

The UK economy shrank by 20.4% in April, the largest monthly contraction on record following the first full month of the lockdown period due to the COVID-19 pandemic. The Organisation for Economic Co-operation and Development (OECD) has warned that the UK is likely to be the hardest hit by COVID-19 amongst major economies, estimating a slump of 11.5% in 2020. It warns if there was a second peak in the pandemic, the UK economy could contract by as much as 14%.

In addition, the UK Government has 'formally confirmed' that the transition period with the EU will come to an end on the 31 December with no further extension period to the current agreement.

### Overview – Local Authority Funding

Following a deferment of the Fair Funding and Business Rate Retention review in 2019/20 local authorities were given a one-year funding settlement for 2020/21. Because of the pandemic, the proposed government Spending Review, Fair Funding Review and Business Rate Retention reforms plans have all been deferred for a further year, leaving considerable uncertainty over the extent and nature of future local government funding.

Collectively, these three inter-related initiatives will fundamentally influence the local government finance environment as they will eventually determine:

- how much funding will be available to public services (including local government) as a whole;
- the means by which that funding will be shared among individual local authorities; and
- how local business rates will be distributed.

### Impact on the 2020/21 outturn position

It is still early in the financial year however there are a number of material issues which could impact on our ability to deliver outturn in line with budget. This listing excludes costs and loss of income relating to the COVID-19 pandemic which are reported separately:

Portfolio	Issue
Children and Young People	Increase in Children Looked After (CLA) placements, increase in social care staffing offset by delays in recruitment for residential services personnel.
Education and Skills	Continued unprecedented demand for SEND Home to School transport for EHCP children and inflation costs beyond budgeted levels offset by staffing vacancies.
Environment and Public Protection	Reduction in income expectation on solar and battery projects due to the market rates and

Portfolio	Issue
	schemes in pipeline offset by estimated utilities underspend in year.
All Portfolios	Estimated travel mileage savings - excluding social care (between April to August).
All other Portfolios	Balance of other pressures and mitigations within Portfolio budgets.

### Impact Arising from the Covid-19 Pandemic

The estimated costs to the Council as at 19 June 2020 (the date of submitting MHCLG Delta returns) fall into the following portfolio areas.

**Table 1: Estimated costs**

	A	B	C	D	E	F
by portfolio	2020/21 Budget	Covid-19 2020/21 Exp Pressures	Covid-19 Income Losses	Potential Unachieved Savings	Total Estimated Cost of Covid-19 (B+C+D)	Estimated Cost as a % of Net Budget (E/A)
Adults & Health	£209.42m	£21.42m	£1.62m	£4.59m	£27.64m	13%
Children and Young People	£129.57m	£7.86m			£7.86m	6%
Economy and Corporate Resources	£52.81m	£0.89m		£2.40m	£3.29m	6%
Education & Skills	£20.82m	£1.17m	£1.54m		£2.70m	13%
Environment	£60.38m	£0.17m	£0.13m		£0.30m	0%
Finance	£13.89m	£0.30m			£0.30m	2%
Fire & Rescue and Communities	£35.73m	£0.38m	£2.05m		£2.43m	7%
Highways and Infrastructure	£35.40m	£0.44m	£2.85m		£3.29m	9%
Leader	£1.45m				£0.00m	0%
<b>Total portfolios</b>	<b>£559.47m</b>	<b>£32.63m</b>	<b>£8.19m</b>	<b>£6.99m</b>	<b>£47.81m</b>	<b>£0.00m</b>
Non portfolio	£34.39m	£1.07m	£1.20m		£2.27m	7%
Income Losses Collection Fund & Business Rates		£20.00m			£20.00m	
<b>Total Net Expenditure</b>	<b>£593.86m</b>	<b>£53.70m</b>	<b>£9.39m</b>	<b>£6.99m</b>	<b>£70.09m</b>	<b>12%</b>

These cost estimates exclude the Infection Control and Local Test, Track and Trace costs, as these are supported by separate ring-fenced funding from the Government.

The final impact on the budget is dependent on the speed of the recovery process from the pandemic. The majority of our funds arise from council tax receipts (£486 m) even a 1% increase in residents eligible for support in paying council tax will lead to a reduction in council tax income of £4.9m. Potentially, if the economic downturn is profound, we could experience a greater reduction in council tax increasing our budget gap.

The County Council has to date received government funding of £36.4m towards these estimated full year costs. The announcement by the Government on 2 July of further funding of £500m to support local government is very welcome however, the value of the funding that will be received by the County Council has yet to be confirmed but is unlikely to be sufficient to fully mitigate the risk of the estimated costs shown in the table above. In addition, the Government announced separate support of funding for income losses and plans for allowing the repayment of collect fund deficits over subsequent losses. We are awaiting detail on these initiatives.

Potentially these costs could escalate to £86m for 2020/21 if the direct costs and loss of income worsen.

### The Medium-Term Financial Strategy

The current minimum budget gap for 2021/22, reflecting the circumstances arising from COVID-19 and representing the minimum level of savings or additional income to be identified in order to set a balanced budget for next year is £34m and the period over the next three years is £101m. The estimated worst-case scenario is £73m for 2021/22 and the period over the three years is £158m.

### Budget Gap 2020/21 to 2023/24

**Table 2: Budget Gap - best estimate for current year, optimistic for 21/22 onwards**

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
<b>Budget Gap - Feb 20</b>	<b>0</b>	<b>15</b>	<b>17</b>	<b>13</b>
Undeliverable savings:				
2020/21	7	7		
2021/22		3		
Pressures:				
COVID - gross	43	7		
New services pressures		8	8	9
Funding:				
Impact on council tax and business rate collection	20	11	3	3
Changes to government funding assumptions		-17	13	0
Total	70	34	41	25
Additional Grant from government	-36			
<b>Budget GAP</b>	<b>34</b>	<b>34</b>	<b>41</b>	<b>25</b>
Total for 20/21 onwards				<b>135</b>
Total for 21/22 onwards				<b>101</b>

**Table 3: Budget Gap – best estimate for current year, pessimistic for 21/22 onwards**

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
<b>Budget Gap - Feb 20</b>	<b>0</b>	<b>15</b>	<b>17</b>	<b>13</b>
Undeliverable savings:				
2020/21	7	7		
2021/22		8		
Pressures:				

	2020/21	2021/22	2022/23	2023/24
	£m	£m	£m	£m
COVID - gross	47	20		
New services pressures	6	8	8	9
Funding:				
Impact on council tax and business rates collection fund	25	33	4	4
Changes to government funding assumptions		-17	30	0
Total	85	73	59	26
Additional Grant from the Government	-36			
	<b>49</b>	<b>73</b>	<b>59</b>	<b>26</b>
Total for 20/21 onwards				<b>207</b>
Total for 21/22 onwards				<b>158</b>

This will potentially change depending upon a variety of factors;

- How deep and long-lasting the anticipated recession arising from the pandemic is and the impact on council tax income.
- The level of further additional funding that might be made available by the Government, including confirmation that current grant funding underpinning essential services, for example social care, will not be withdrawn.
- Whether the recovery from the impact of the pandemic is sustained or whether there is a '2<sup>nd</sup> Wave'.
- The degree to which 2020/21 net expenditure is contained within the budgets available.
- The more proactive that we are in managing these circumstances, the greater the degree of control that can be exerted over the budget gap both in 2021/22 and the medium term.
- In the event that the worst case scenario were to be realised, i.e. a budget gap of £73m for 2021/22, the scale of change required is of a wholly different degree, in such circumstances there would be a requirement to have private discussions with Ministers about funding levels but clearly, the more that it could be demonstrated that we had been proactive in managing financial risks, the greater the likelihood that lobbying and representations would be well received.

### Further Development of the Approach

The main report provides details of the initial areas of search in specific services. This provides some cross-cutting areas and approaches:

- Review of staffing vacancies
- Review of targeted voluntary redundancy to accelerate savings
- Review of services to identify opportunities where the cost of services are high – using benchmarking information.
- **Review of Existing Projects & Plans** – traditionally financial planning builds upon what has gone before, decisions already made are not necessarily revisited, however the pandemic has demonstrated that previous assumptions

---

and expectations may have been altered forever, for example the degree to which it is possible to provide services in remote working conditions.

- **Review of the Capital Programme** - The Capital Programme is already being reviewed with a view to determining whether 'pipeline' projects should still continue, and this approach would be beneficial in relation to revenue service developments and projects as well, some potential examples could be as follows:
  - Are economic regeneration projects still delivering value for money in circumstances where remote or online working may be more prevalent?
  - Will care within residential settings be forever altered and/or less attractive to the public, if so, how will this change the expenditure profile of care provision, care commissioning, procurement and could there be renegotiation of existing contracts?
  - Do improvement plans all include both an assessment of value for money (economy, efficiency, effectiveness and the environment expanding on the traditional 3Es to reflect the climate change priority) and consequently planned savings and metrics to monitor delivery?
- **Review of New Ways of Working**, whether these are in terms of the use of physical, financial or human resources? This could also potentially provide a useful opportunity to reconsider the opportunities for existing initiatives, such as Smart Core to support broader changes, harnessing technology to deliver further efficiencies?
- **Review of Procurement Pipeline** - What are the options for reviewing procurement pipeline projects? Are there options for either halting or significantly altering procurement exercises, service specifications and risk sharing? Are there opportunities for using framework contracts to a greater extent, i.e. reducing the number of procurement exercises that need to be undertaken, reducing the barriers to service providers bidding, increasing the level of competition, increasing the level of collaborative procurement with partner organisations?
- **Review of Reserves** – What are the options for re-purposing existing earmarked reserves in order to free up resources to support invest to save opportunities and/or to increase the financial resilience and flexibility available?
- **Review of Options for Council Tax Referendum and/or Specific Precepts** – There is a growing focus upon the need to deliver solutions to the longstanding issue of funding adult social care, whilst greater awareness is becoming apparent of the parallel issue of the funding pressures linked with Children's Services. Is the County Council sufficiently prepared to influence and lobby the deliberations around these issues, whether in specific response to existing funding arrangements and/or future Green Papers and/or consideration of increasing the County Council precept by an amount greater than the cap, and/or in broader terms when the reviews of Fair Funding and Business Rates are undertaken?