

Meeting: **Cabinet**

Date of meeting: **18 November 2021**

Title of Report: **Development of the Medium Term Financial Plan (MTFP) 2022 to 2027**

Report by: **Gill Steward, Chief Executive and Pam Duke, Director of Finance (s151 Officer)**

Cabinet Member: **Councillor Stewart Young, Leader of the Council and Councillor Peter Thornton, Deputy Leader – Cabinet Member for Finance**

Executive Summary

1. The County Council agreed the 2021/22 Budget and Medium Term Financial Plan (MTFP) to 2021-2026 at its meeting on 14 February 2021. The 2021/22 Budget as agreed in February was developed whilst there was still significant uncertainty around the financial and non-financial impact of the ongoing COVID-19 pandemic.
2. Cabinet has received regular updates on the financial position of the Council in both June and September including the assumptions around ongoing and one off COVID-19 funding. The outturn report for 2020/21 which reported a balanced budget position was agreed by the Leader on 11 June 2021. For 2021/22 the Q1 revenue monitoring report was received by Cabinet on 23 September 2021. The forecast as at Q1 is to have a balanced budget at the year end with COVID-19 related and other pressures being offset by in year underspends and with a £0.596m in year transfer to the Financial Volatility Reserve. This is a key assumption for the consideration of the budget position for 2022/23.
3. The Council continues to deal with significant financial challenges. It is anticipated that the recovery from COVID-19 may take many years. Against this backdrop, the Council continues to respond to and recover from the COVID-19 pandemic, working with partners across the county and across sectors, to support the community, businesses, and organisations to recover and secure the best possible outcomes for people and places in the county, in the medium to longer term. Recovery planning is wide ranging, focusing on the economy, on communities, on families, the environment, and health and wellbeing. The Council will play a critical role in leading and facilitating recovery and will also lead and deliver on key areas of activity. At this stage there is no indication that additional funding to support Local Government through any COVID-19 impacts in 2022/23 will be available.
4. All councils continue to face difficult and uncertain financial times. On a national level there is ongoing uncertainty regarding the future funding strategy and funding mechanisms for local government. The Autumn Statement and spending review 2021 announced on the 27th October brought some clarity but the overall financial impact will not be fully available until the Local Government Financial settlement is received in December 2021.

5. The underlying pressures upon social care services across all ages from the growing elderly population, increasing numbers of younger adults with complex needs, increasing demand for children support services combined with the unprecedented pressures from responding to the pandemic has resulted in uncertain and yet increased demand in many areas. It is difficult to understand at this stage in the budget planning cycle whether these increases are temporary or indicative of permanent changes. Monitoring and modelling future likely demand changes, against a backdrop of uncertain behavioural changes, is difficult and hence the assumptions used in setting the 2022/23 budget represent the position as it is understood at this time.
6. On 7 September 2021, the government published 'Building Back Better; Our Plan for Health and Social Care'. This set out its plan to tackle twin challenges – the backlog in the NHS as a result of the pandemic and the long standing systemic issues and funding challenges for delivering adult social care. The plan is initially focussed upon reducing the waiting times for non-COVID-19 care. The plan then outlined proposals from the government for reforming adult social care, with a focus upon what both those who receive services will need to pay and the support they may receive and albeit briefly, the additional funding that will be provided to local government to support the reformed system.
7. The Autumn Statement alongside the Spending Review 2021 started to outline in greater detail the funding being made available to Local Government but it is still not certain when and how much funding Cumbria will receive. Government has announced that it intends to pay for additional health and social care funding through the introduction of a 1.25% Health and Social Care Levy based on National Insurance contributions from 1 April 2022. The working assumption at this stage in the budget planning for 2022/23 is that the additional costs of implementing the changes proposed will be fully funded.
8. Finally on 21 July 2021, the Secretary of State for Housing, Communities and Local Government, Robert Jenrick MP, announced that the preferred arrangement for Local Government Reorganisation in Cumbria was the creation of two unitary councils – East (Barrow, Eden and South Lakeland) and West (Allerdale, Carlisle and Copeland) from the 1 April 2023 and legislation to deliver this is due to be laid in the Autumn of 2021. This means that the 2022/23 financial budget and MTFP will be the final revenue budget set for Cumbria County Council. For 2023/24 onwards the individual Unitary councils will be required to set their own balanced budget and MTFP.
9. In any year there is always a significant level of uncertainty to budget planning but for the 2022/23 financial year and even more so for the longer term MTFP period there are significant unknowns and it is in that context that the Council has determined a set of assumptions in order to propose a balanced budget position for 2022/23. As further information and announcements are made, and uncertainties are clarified the budget planning assumptions will be revised.
10. It is recognised that the County Council, assuming the Local Government Reorganisation is achieved, will cease to exist on the 1 April 2023 and hence although the financial planning has been continued through into 2023/24 – 2026/27 these are indicative for planning purposes only. The County Council will not deliver on these assumptions but they will be used to inform the Unitary Councils budget setting processes. This includes the approach the County

Council would have taken to ensure a balanced budget position in future years through continued implementation of new ways of working, efficiencies and innovative service provision.

11. Overall between 2011/12 and 2021/22 the Council has agreed budget savings that amount to £288.7m. For the period of the next Medium Term Financial Plan (MTFP) 2022-27 the Council (if it was continuing as an individual authority) will need to deliver a further £46.6m of savings. This means that from 2011 to 2027 the Council will have delivered a total of £335.3m of savings from its day to day (revenue) budget which is currently £417m net of specific grants, fees and charges.
12. The Council published a four-year Council Plan for 2018-2022 at its meeting on 15 February 2018. This set out the way the Council intends to achieve its vision to improve outcomes for the people of Cumbria and be financially sustainable. The annual budget and MTFP sets the framework for how the Council plans to use its financial resources to deliver the outcomes within the Council Plan.
13. This report updates the 2022-2027 Budget Planning position and proposes the approach that could be taken to deliver the savings required to achieve a balanced budget for the 2022/23 financial year and sets out the financial assumptions for the 2023/24 – 2026/27 financial years. The importance of a five-year financial planning period is to demonstrate ongoing commitments to potential transformation programmes which will still be essential for the long-term financial sustainability of the County Council in 2022/23 and the two new unitary Councils from 2023/24 onwards.
14. One of the recommendations set out in this report is to begin consultation with the public on the level of Council Tax for 2022/23. This is in readiness for Cabinet to recommend the Budget Proposal 2022/23 and Medium Term Financial Plan (2022-2027) to Council at its meeting on 14 February 2022.
15. The consultation document will seek views on the County Council's general increase to Council Tax for 2022/23. The proposed Council Tax increase for 2022/23 is 1.99% and is consistent with the existing MTFP and the Council Tax Referendum threshold. In addition, the Council proposes to increase the Adult Social Care Precept by 1%, to support Adult Social Care Services and this is in line with the 2021/22 MTFP assumptions.
16. In the Autumn Statement and CSR21 announcements it was proposed that Councils can further increase the Adult Social Care Precept by 1% in 2022/23. This is in addition to the 3% increase allowable in 2021/22 that was allowed to be spread over both 2021/22 and 2022/23. In setting the 2021/22 MTFP the County Council agreed to spread the 3% Adult Social Care Precept increase across the two financial years with a 2% increase in 21/22 and a 1% increase in 2022/23. There is a possible option for the Council to now increase the Adult Social Care Precept by 2% in 2022/23 but this is still to be confirmed as part of the Local Government finance settlement in December.
17. In order to deliver a balanced budget in 2022/23 and meet our statutory responsibilities, the current planning assumptions will require £12.251m of new savings in 2022/23 to be proposed to Council in February 2022. A range of options have been developed. These proposals are summarised in Table 5 of this report.

18. The Council has worked to secure investment for a wide range of major capital projects that provide real and long-term benefits to Cumbria. Cabinet at its September 2021 meeting received an update on the progress of the Capital Programme (2021-2026). The Council also continues to work closely with District partners to develop Town Deal and Future High Street proposals across the County.
19. Alongside these and funded through additional contributions from DFT and the Environment Agency we are delivering targeted improvements to key highways locations to improve resilience, and flood mitigation schemes, supported by a comprehensive programme of walking and cycling infrastructure plans for towns across the county; these schemes will seek to improve health and wellbeing, while also promoting clean green growth of the county. These key environmental schemes align closely with the new County Council Carbon Management Strategy (Corporate Estate) approved by Cabinet on 12th November 2020.
20. Cabinet and Council are committed to improving outcomes for the people of Cumbria and it will continue to make the most of opportunities, build on our assets, utilise the talents of our committed workforce to drive and deliver on the strategic planning process. We will continue to focus our efforts on offering early help to those in need, promote independence and independent living, and provide effective preventative services by working closely with our partners and our communities, harnessing the opportunities digital working can offer.

Recommendation of the Director of Finance

21. That Members note the revised Budget Gap position of £12.251m for 2022/23, and the proposals identified within this report to provide a balanced budget for 2022/23 (Year 1 of the Medium Term Financial Plan 2022-2027).
22. On the basis of the balanced budget proposals set out in this report, Members approve consultation with the public on the level of Council Tax for 2022/23 of a 1.99% increase in general Council Tax and a 1% increase in Adult Social Care Precept.
23. That Members note the revised Budget Gap for planning purposes only for the period 2023/24-2026/27 which results in additional savings of £34.369m. The detail on how these savings will be delivered will be developed and delivered by the two new unitary councils. The County Council Medium Term Financial Plan 2022-2027 will set out a requirement to find total savings of £46.620m (being £12.251m for 2022/23 and then £34.369m for 2023/24-2026/27).

Context

24. Cumbria is a county with fantastic assets and offers a unique quality of life to the people who live and work within the county; and for those who visit the area and want to do business here. However, the county also faces some significant challenges:
 - A health and care system which nationally is grappling with the demands of COVID-19, our ageing population and in tackling the health inequalities across the country.
 - Health Services that include two CCG's and developing Integrated Care

Systems and numerous health providers collectively working with the Council to deliver integrated services.

- The legacy of a higher number of children looked after who need a family or greater permanence and stability in their lives.
- Funding uncertainty that sits alongside significant pressures from potential rising demand and the long-term impact of COVID-19, particularly in children's and adult social care.
- Economic inequalities within the county prevail with some areas experiencing particularly high concentrations of deprivation, pockets of deprivation within more affluent rural areas, high house prices creating affordability issues for local people, and parts of the economy characterised by low wages and seasonal work.
- Unsatisfactory connectivity and access as a result of the geography of the county, is exacerbated by poor infrastructure and whilst digital connectivity, both fixed line broadband and mobile coverage, has improved significantly in recent years, there remains several hot-spots in our more challenging rural geography that the Connecting Cumbria Programme continues to address in line with the Council's Digital Infrastructure Strategy; and
- A significant change programme to deliver Local Government Reorganisation across all layers of Councils (County, District and Parish) in Cumbria by 1st April 2023.

Impact of COVID-19

25. Since setting the Budget in February 2021 the Council has continued to lead the response to COVID-19 through its Public Health responsibilities, as a partner in multi-agency response and as a commissioner and provider of services. This is ongoing and the continued impact has led to significant and unprecedented financial consequences for the Council in areas such as demand for social care, re-prioritisation of resources, delays to transformation activity and lost income in sales, fees and charges.
26. In response to the public health crisis, the Council continues to take action to; maintain the delivery of vital services across all areas of its operations, support the NHS and the social care & health system through enhanced hospital discharge processes to free up capacity, protect vulnerable people, support businesses, ensure the safety of all staff delivering this vital work.
27. There continues to be financial consequences for the Council as a result of the impact of COVID-19. This is consistent with all other Local Authorities and information on COVID-19 costs incurred continue to be reported monthly to MHCLG. The Council in its Q1 budget monitoring position for 2020/21 reported £4.7m of unfunded COVID-19 pressures in year. This assumes full use of the £10.381m general grant funding for 2020/21. This is separate to the ringfenced funding announced such as the Infection Control Fund and the Contain Outbreak Management Fund for example.

28. Central government have said there is no more general funding to support local government yet the demands upon Council services and the consequent financial impacts of the COVID-19 pandemic are expected to continue beyond 2021/22. The continued uncertainty about future funding will represent a significant challenge for public finances for some years to come.
29. The on-going impact of COVID-19 is set against a framework of risks facing local authorities. Winter pressures arising earlier than normal affecting service delivery (including those upon health partners), cyber threats, influenza, etc. These concurrent risks are reflected in the Corporate Risk Register. The management and mitigation of those risks has been set out in the Corporate Risk Register, reported to the Audit and Assurance Committee and will be regularly reviewed.

Local Government Reorganisation (LGR)

30. In September 2020 the Council submitted its proposal for a single unitary authority for Cumbria with potential for significant net benefits (cumulative savings less cost of change) and subsequent ambitious transformation. The County Council proposal advocated that a single unitary authority would deliver the best outcomes for residents, businesses and partners and real value for money, allowing the new council to reinvest the benefits in services.
31. In addition to the County Council's proposal the District/Borough Councils submitted three alternative structures, the East West unitary, the North South and the Bay.
32. Government undertook consultation on the proposed options during Spring 2021 and on 21 July 2021, the Secretary of State for Housing, Communities and Local Government, Robert Jenrick MP, announced that the preferred arrangement was the creation of two unitaries – East (Barrow, Eden and South Lakeland) and West (Allerdale, Carlisle and Copeland) and legislation is due to be laid in the Autumn of 2021. The two new unitary councils will be effective from 1 April 2023.
33. An LGR transition programme involving all Councils affected by the change has been established with phase one – mobilisation of the programme due to be completed shortly and phase two – the design phase starting to be delivered. It is a significant change programme and there is commitment to deliver two new unitary councils from 1 April 2023 that are able to operate safely and legally from day one with services operating at least at the standard that they did on 31 March 2023. The programme provides the process and governance, the programme outputs become bespoke to the needs of the new Councils and what they choose to deliver.
34. Alongside delivery of the LGR transition programme a parallel legal process is being taken by the County Council. In Mid August 2021, the Council took the decision to issue a pre-action protocol letter to the Secretary of State setting out its concerns regarding the basis of the decision. This letter was the first step towards 'potentially' pursuing a Judicial Review (JR). The Secretary of State responded to the letter and after careful consideration of the Government's response at its meeting on 23 September Cabinet decided to proceed with a JR of the Government's decision to create two unitary councils for Cumbria. This decision was called in, and after consideration by the Scrutiny Management Board on 11 October 2021 the decision was referred back to Cabinet. Cabinet

reconsidered the decision and restated their original decision to pursue JR on 14 October 2021. The Council issued its JR application, and therefore commenced legal proceedings, on 18 October 2021. A decision on whether or not to grant permission for the case to be heard should be made by the end of November 2021.

35. The Medium Term Financial Plan 2022-2027 is being refreshed on the assumption of Local Government Reorganisation being implemented and recognising that the County Council's final revenue budget will be for the financial year 2022/23. Financial planning has been continued through into 2023/24 – 2026/27 and these are indicative for planning purposes only.

Financial Context

36. All Councils continue to face significant uncertainty regarding national funding announcements and allocations. On the 7 September the Government published 'Building back better; our plan for Health and Social Care presenting a reform package for social care and additional funding for the NHS from 2022-23. At the same time the Spending Review 21 launch letter was published by the Chancellor of the Exchequer, Rishi Sunak. It stated that this is to be a multi-year spending review covering the year 2022-23 to 2024-25 and this will "conclude on the 27th October 2021 alongside the Autumn Budget 2021". The Chancellor stated that "at the spending review the government will set out how they will 'Build Back Better', deliver the priorities of the British People and continue to support businesses and jobs through:

- Ensuring strong and innovative public services - making people's lives better across the country by investing in the NHS, education, the criminal justice system and housing.
- Levelling up across the UK to increase and spread opportunity; unleash the potential of places by improving outcomes UK-wide where they lag and working closely with local leaders; and strengthen the private sector where it is weak.
- Leading the transition to "Net Zero" across the country and more globally.
- Advancing Global Britain and seizing the opportunities of EU Exit.
- Delivering our Plan for Growth - delivering on our ambitious plans for an infrastructure and innovation revolution and cementing the UK as a scientific superpower, working in close partnership with the private sector."

37. The Chancellor set the envelope for spending over the next three years stating
- Core day-to-day departmental spending will follow the path set out at spring Budget 2021, with the addition of the net revenue raised by the new Health and Social Care Levy and the increase to dividend tax rates announced. The Government will make available around an additional £12 billion per year for health and social care on average over the next three years.

- There will also be delivered a step-change in capital investment, as set out at Budget 2021. With over £600 billion available over five years.

38. These announcements will all affect the amount of funding local authorities will receive and in some cases what we are expected to do with it. In the absence of any firm funding announcements the 2022/23 Budget planning presented in this report assumes a rollover settlement, i.e. maintaining funding at the same levels as 2020/21.
39. Any changes to this critical assumption and levels of funding will have an impact on the financial planning position. The outcome of the Spending Review 21 and the Provisional Grant Settlement to Local Government (expected mid-December) will be essential to the understanding of the likely budget available for 2022/23. Also, still to be confirmed, is the outcome of the Fair Funding Review and the introduction of the 75% local Business Rates Retention Scheme. It is expected that these will not be introduced for 2022/23 and there is a potential for these both to be pushed back by 3 years, to 2025-26 but this isn't certain and implementation of both of these changes will significantly impact on the financial assumptions used to set the 2022/23 budget.
40. From an economic perspective the ongoing impact of the COVID-19 pandemic has resulted in huge economic damage to the UK economy and to economies across the world.
41. There was a stronger Q2 GDP growth in the UK than previously estimated, however supply chain fears continue to dominate with labour shortages across several sectors, increases in raw material prices and shortages in fuel and other essential supplies, all impacting on the level of inflation.
42. Inflation is also increasing across much of Europe which indicates that the problems in supply chains and from labour shortages are also being experienced there. The issues of supply of raw materials from China and the rest of the Far East, container shortages and increases in fuel prices and labour shortages are all compounding to increase inflation to higher than forecast levels.
43. In addition, the UK left the EU in January 2020 and the transition period came to an end on 31st December 2020. Since then, the impact of the EU exit has been felt across a number of sectors including construction, the food industry and in particular the care sector with the supply of labour and materials being affected.
44. In Cumbria, whilst the number of Jobseeker allowance and universal credit claimants has reduced by 27% from September 2020, it is up +51% from July 2 years ago. The claimant rate is 3% which is 1.2% lower than last year but is up 1.1% from two years ago. The furlough scheme ended at the end of September, but it is too early to determine the effect on the claimant rate, and therefore it is too early to be definitive about the impact on Council Tax (i.e. through a reduction in claimants for Council Tax Discount, increases in housebuilding, and the level of irrecoverable unpaid Council Tax) for 2022/23 and beyond.
45. The Council is working closely with colleagues from District and Borough Councils (Billing Authorities) to model the potential impact on Council Tax income ahead of the completion of statutory Council Tax returns due at the end of January 2022.

46. The drive for efficiency together with the need to manage increasing demand within reducing resources has been with the public sector since the beginning of this century. Being more efficient is not a new concept but it is becoming increasingly difficult to achieve a balanced budget through efficiency alone. Since 2011 we have balanced our budgets each year with savings totalling £289m having been achieved in this period.
47. The Council continues to make the case to government for sufficient funding for Cumbria, to deal with both the impact of COVID-19 and recovery, and for the increase in demand for services already present before the pandemic period. Although we and the sector have been successful in securing extra one-off grants, in particular for roads and infrastructure, as referenced earlier, in the absence of clarity and sufficiency of funding we must look to rebalance our budget. Without clarity about longer term funding for local government in general, this may mean we may only be able to provide essential services.
48. Any announcements specifically in respect of Local Government from the Spending Review 21 and Autumn Budget will be incorporated into the Provisional Local Government Finance settlement, it is hoped that this will be received mid-December. The Provisional Settlement will be reflected in the Budget Report to Council on 10 February 2022 but until that time the figures used will be estimated based on our assumptions as described below.

Financial Planning considerations

49. It is difficult to estimate both future demand for services and the funding that will be available to meet this demand.
50. We are required by law to set a balanced budget and we must build our Budget and Medium Term Financial Plan with the best information and knowledge we have available.
51. Given the current degree of uncertainty about the Spending Review 21 it is likely that our financial assumptions will need to be significantly updated as more information is made available from the Government. The budget documents will continue to be refreshed with latest data ahead of the final budget proposals being presented to Cabinet on 27 January 2022.
52. During the development of the MTFP several uncertainties were identified and considered together with a number of assumptions being made. These uncertainties and assumptions are described below.

Uncertainties

53. The level of uncertainty relating to the council's future resources has never been greater:
 - The medium and long-term impacts of COVID-19 recovery are unknown but may be significant. The assumption is that it is unlikely that government will provide additional general support to local government as a result of these.
 - The level of demand for our services as we respond and recover from COVID-19, especially in the field of social care are very difficult to model.

There is no clear understanding on different choices that families and individuals may make and the unprecedented pressure on the health and social care system means that demand is skewed towards availability across the market rather than determining longer term trends.

- There is increasing uncertainty around the impact of inflation. As stated earlier in the report inflationary pressures are on a global level and it is unclear if they are temporary as the world rebalances itself from the pandemic or if they are longer term and more permanent.
- There is uncertainty with regards to the amount of funding we will receive from government, how much Council Tax will be raised for 2022/23 and the level of Business Rates receipts which will be received in 2022/23 Council Tax accounts for £268 million and Business Rates accounts for £93 million (split c £71m grant and £22m locally retained) of our core funding. In totality, these two sources of funding are our principal sources of general funding (i.e. not service specific) and in this regard account for c84% of the Council's total general funding.
- Beyond 2022/23 uncertainty in relation to local government funding increases. The continued and repeated delays and lack of clarity surrounding the reforms of the Fair Funding Review and Business Rates Retention, alongside the impact of the new Health and Social Care Levy, the medium and longer-term impacts of COVID-19 combine to establish a climate of extreme uncertainty for 2023/24 onwards. Coupled with Local Government Reorganisation the MTFP for 2023/24 – 2026/27 can only provide indicative estimates for planning purposes for the Unitary councils.

Assumptions

54. Amongst these uncertainties a number of assumptions have been made in order to develop the 2022/23 budget,
- Any continuing impact of COVID-19 is unlikely to be funded by Government in relation to expenditure and loss of income from sales, fees and charges, however support is expected to continue in relation to lost income from Council Tax and Business Rates.
 - Inflation assumptions included in this report have not been uplifted from those set in February 2021. Any changes to inflation forecasts will reflect the Office for Budget Responsibilities Economic Forecast which is expected to be published alongside the Autumn Budget and Spending Review 2021 on 27 October. The MTFP 2022-2027 will be updated to reflect any updates to this assumption after those announcements and they will be included in the revised budget proposed to Cabinet on 27 January 2022.
 - The Spending Review will be a rollover settlement and the Council will receive no less funding from central government than it did in 2021/22.
 - The Council will continue to participate in the Cumbria Business Rates Pool and will receive no less of a share of Business Rates income than at present.

- Council tax increases by 1.99% - and the Referendum Limit Threshold remains at 1.99%.
- Adult Social Care Precept increases by 1%, the deferred increase from the 3% announced in the Spending Review 2020 and no additional increase are allowed.
- Any additional budget pressures, to those already included, identified through the ongoing work being undertaken by Officers will be required to be funded through the identification of additional savings.
- The additional cost of the new National Insurance Levy for employers will be fully compensated by central government.

55. Funding assumptions for 2023/24-2026/27 are based on the continuation of the current level of Revenue Support Grant, Retained Business Rates (10%) plus Top Up Grant, Better Care Fund and improved Better Care Fund as well as the Adult and Social Care Support Grants which we were allocated as part of the 2021/22 Settlement, which supports the delivery of Adult and Children’s Social Care. We have assumed that all these funding streams continue until 2026/27.

Medium Term Financial Plan 2022-2027

Starting position as at February 2021 Council

56. The five-year MTFP (2021-2026) approved by Council in February 2021 set out a balanced budget for 2021/22, a budget gap of **£6.936m** for 2022/23, increasing to **£20.416m** in 2023/24, increasing to **£28.107m** in 2024/25 and increasing to **£34.027m** in 2025/26 as shown in Table 1.

Table 1 – Budget Gap Council February 2021

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget Gap (Feb 2021)	6.936	6.936	6.936	6.936	6.936
Estimated Budget Gap (2021/22)	0.000	13.480	21.171	27.091	27.091
Budget Gap (Feb 2021)	6.936	20.416	28.107	34.027	34.027

57. The new MTFP, to be approved by Council in February 2022, will cover the five-year period 2022/23 - 2026/27. This will include the County Council’s final revenue budget for 2022/23 and indicative revenue budget position for 2023/24 onwards to support planning for the two new unitary councils.

Updated funding assumptions

58. Across the sector there is more certainty that the additional Adult Social Care grant funding received as part of the Settlement for 2021/22 will continue for future years. This grant was not included previously due to the uncertainty that it was one off additional grant. This results in an additional £3.562m funding being assumed for 2022/23 and this increases by inflation each year.

59. The funding used by central government to pay New Homes Bonus (NHB) payments is greater than that needed to pay the existing ‘legacy’ payments and it is now assumed that any surplus will be distributed by central government between 2022/23-2024/25 on a similar basis as 2020/21.

60. Other funding adjustments included are as a result of a review of the Council Taxbase and Business Rates following receipt of the actual data from the District Councils for 2021/22 which accounts for (£5.190m) in 2026/27. Whilst a further (£1.736m) in 2026/27 relates to more certainty around inflationary increases being applied to the Adult Social Care Grants and Rural Services Deliver Grant that were previously assumed to be flat.
61. There are three MTFP roll forward adjustments required for 2026/27 being the inclusion of inflation for the year, the roll forward of Council Tax increase income assumptions as well as a continuation of the MRP and Borrowing costs from prudential borrowing agreed as part of the MTFP 2021/22. The net position of these is £8.634m is shown in Table 2.
62. The impact on the budget gap of these adjustments is shown in Table 2.

Table 2 - Other MTFP adjustments

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget Gap (Feb 2021)	6.936	20.416	28.107	34.027	34.027
New Homes Bonus	(0.701)	(1.113)	(1.113)	0.000	0.000
Continuation of Additional Adult Social Care Grant	(3.562)	(3.633)	(3.706)	(3.780)	(3.856)
Other Funding adjustments	0.174	0.497	0.005	(2.333)	(7.217)
Other adjustments Inflation £13.883m 1.99% Council Tax increase (£5.779m) MRP and Borrowing cost £0.580m	0.000	0.000	0.000	0.000	8.634
Revised Budget Gap	2.847	16.167	23.293	27.914	31.588

Forecast delivery of existing MTFP savings

63. Since setting the 2021/22 budget the COVID-19 pandemic has continued to impact upon the delivery of previously agreed MTFP savings as key staff and those in partner agencies have focussed on the response to the COVID-19 pandemic. In addition, the economic conditions for some service areas have changed significantly and the context in which the savings were originally established have altered.
64. There are therefore previously agreed savings included in the existing MTFP 2021-2026 where forecast delivery in 2022/23 and beyond is expected to still be impacted and are no longer deliverable on a permanent basis. These savings total **£1.157m** as detailed in Table 3.
65. In addition, due to the LGR announcements and the ongoing LGR transition programme, it is no longer possible both from a capacity and a commitment to investment perspective to assume delivery of some of the already agreed savings in 2022/23. For planning purposes, it will now be assumed that a number of transformational savings will no longer be deliverable in 2022/23 by the County Council ahead of vesting day on the 1st April 2023 but it is recognised that they could be delivered in 2023/24 if the County Council was continuing as an authority. These savings total £2.288m as detailed in Table 3.

Table 3 - Forecast changes to Existing MTFP savings

IMPACT		2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
COVID	Extra Care Housing	0.226	0.226	0.226	0.226	0.226
COVID	Children's Quality and Development Plan	0.931	0.931	0.931	0.931	0.931
Permanent non-delivery		1.157	1.157	1.157	1.157	1.157
LGR	Service Automation	0.175				
LGR	Customer Service Transformation	0.273				
LGR	Digital Transformation	0.450				
LGR	Enabling Services	1.390				
Delayed delivery due to LGR		2.228	0.000	0.000	0.000	0.000
Changes to Existing Saving assumptions		3.445	1.157	1.157	1.157	1.157

Pressures

66. Since setting the 2021/22 budget, the medium and long-term effect of the COVID-19 pandemic has continued to impact on services and pressures are forecast to continue beyond 2021/22 into at least 2022/23. Future spending plans need to reflect changes in demand levels and although challenging to forecast it is evident that the COVID-19 cost and demand impact will continue into 2022/23.
67. It is estimated that within Adult Services this pressure could be £2.000m and within Children's Services £3.000m. Modelling is continuing and the adults pressure position in particular could be subject to change as the winter pressures impact and national policy changes are further understood. The Council established a Financial Volatility reserve in 2021/22 to provide robustness to the financial sustainability of the Council given the uncertainty relating to the impact of COVID-19. It is proposed that these pressures for 2022/23 are funded as one off pressures from the Financial volatility reserve.
68. The Capital Programme continues to be developed and will be subject to Council approval of the new schemes to be included in the capital programme and additional prudential borrowing required. The cost of borrowing for new schemes is included as a revenue pressure each year. These costs will be updated as per the final approved capital programme by Cabinet and Council in February 2022. Indicative revenue costs are assumed of £0.309m in 2022/23 increasing to £1.543m in 2026/27.
69. DBS Triennial charges – Some of our posts require employees to undergo a DBS check as a condition of employment, these are undertaken as part of the recruitment process. Every 3 years these need to be updated and the Council uses a rolling programme to ensure compliance with this requirement. Due to more staff requiring a DBS check the inclusion £0.050m is proposed to meet this pressure.
70. SEND Transport Pressure – the increase in the number of SEND pupils requiring school transport continues and whilst the Councils Transport Operations Team looks to deliver efficiencies through route planning and where there is a gap in the market they will provide an in house service the pressure of higher demand cannot be fully mitigated. £0.600m is therefore proposed to be required on a permanent basis to meet this pressure.

71. Table 4 below shows the revised budget gap including changes to the existing MTFP savings and pressures.

Table 4 - Review of Existing MTFP savings and pressures

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Revised Budget Gap before review of existing savings and pressures	2.847	16.167	23.293	27.914	31.588
Review of existing savings	3.445	1.157	1.157	1.157	1.157
Adults – COVID-19 Pressure	2.000				
Children’s – COVID-19 Pressure	3.000				
Capital Programme -Cost of Borrowing	0.309	1.093	1.133	1.213	1.543
Triennial DBS charge	0.050	0.050	0.050	0.050	0.050
SEND Transport	0.600	0.600	0.600	0.600	0.600
Budget Gap after review of Existing savings and Pressures	12.251	19.067	26.233	30.934	34.938

72. The revised budget gap for 2022/23 is **£12.251m** increasing to **£34.938m** in 2026/27.
73. As stated in paragraphs 53 and 54 it is assumed at this stage in the financial forecast that there will not be a significant change to the Local Government Finance allocations in the short or medium-term as a result of the Spending Review and the postponement of the introduction of 75% Business Rate Retention or the introduction of the Fair Funding Review.

General Council Tax and Adult Social Care Precept

74. It is assumed that the Council will increase general Council Tax by 1.99% and Adult Social Care Precept will increase by 1%.
75. The consultation document asks for feedback from the public on a proposed 1.99% increase in the County Council’s share of Council Tax for general purposes in 2022/23 and on the proposed 1% increase in the Adult Social Care Precept for 2022/23.
76. Budget Planning assumptions set out in this report, and in the consultation document, assume Council Tax is increased in total by 2.99% in 2022/23.
77. In the Autumn Statement and CSR21 announcements it was proposed that Council’s can further increase the Adult Social Care Precept by 1% in 2022/23. This is in addition to the 3% increase allowable in 2021/22 that was allowed to be spread over both 2021/22 and 2022/23. In setting the 2021/22 MTFP the County Council agreed to spread the 3% Adult Social Care Precept increase across the two financial years with a 2% increase in 21/22 and a 1% increase in 2022/23. There is a possible option for the Council to now increase the Adult Social Care Precept by 2% in 2022/23 but this is still to be confirmed as part of the Local Government finance settlement in December. An additional 1% increase in the Adult Social Care Precept in 2022/23 would raise £2.6m additional income annually as set out in Table 5.

Table 5	2022/23	2023/24	2024/25	2025/26	2026/27
	(£m)	(£m)	(£m)	(£m)	(£m)
Additional 1% increase in Adult Social Care Precept in 2022/23	2.603	2.626	2.650	2.668	2.685

78. In respect of the County Council's share of Council Tax increases proposed for 2022/23, a 1.99% increase on Band D property is £29.81 per year (57p per week). A 2.99% increase on Band D Property is £44.79 per year (86p per week). The Council Tax payable per Band D property was £1,498.04 in 2021/22, this would increase to £1,542.83 in 2022/23 if the proposals for a 2.99% overall increase are accepted by Council when it considers the Budget and Council Tax Requirement 2022/23 at its meeting in February 2022. In respect of a Band A property, a 1.99% increase is £19.88 per year (36p per week) and a 2.99% increase is £29.87 per year (57p per week).

Balancing the Budget

79. In order to achieve a balanced budget for 2022/23 in such uncertain times the Council officers have continued to develop saving proposals and maximise financing opportunities to ensure options are available. The saving proposals include the use of the Financial Volatility Reserve created in 2020/21 to support the identified COVID-19 pressures identified meet the budget gap 2022/23.
80. Engagement with Scrutiny will take place on 24th November with a budget briefing session being provided to Trade Unions at the Corporate JCG on the 5th November.
81. Engagement with lead members and Cabinet took place on 14th October 2021 and the 28th October following individual engagement with Assistant Directors and Portfolio Holders over September and October.
82. The proposals are all Financing proposals and are summarised in Table 5. They are principally concerned with the following areas:
- One off funding of ongoing COVID-19 service pressures utilising the Financial Volatility Reserve established by the Council in 2021/22. The reserve was established to provide robustness to the financial sustainability of the Council given the uncertainty relating to the impact of COVID-19. It is therefore proposed that the ongoing adults and children's pressures for 2022/23 are funded from this reserve.
 - A review of Treasury management and capital financing assumptions including the continued use of internal cash balances to fund approved borrowing resulting in cash savings from delayed external borrowing.
 - Applying existing policies and procedures to review high balances on individual direct payment accounts with a view to recovering these where appropriate and a focus on a reduction in related aged debt.
83. Delivering a balanced budget in the light of significant funding reductions since 2011/12 and in these very uncertain times is really challenging. **£12.251m** of proposals have been identified for 2022/23 and these are summarised in Table 6 and in more detail in Appendix B.

84. With the budget gap before proposals rising from £12.251m in 2022/23 to £34.938m in 2026/27 we will need to continue to work differently, be more efficient, harness technology and be more enterprising to ensure financial sustainability for the future. We will also continue to focus on supporting individuals and communities to thrive and be independent wherever possible.

Table 6 – New Proposals

	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget Gap before proposals	12.251	19.067	26.233	30.934	34.938
Financing	(12.251)	(0.569)	(0.569)	(0.569)	(0.569)
Budget Gap after proposals	0.000	18.498	25.664	30.365	34.369

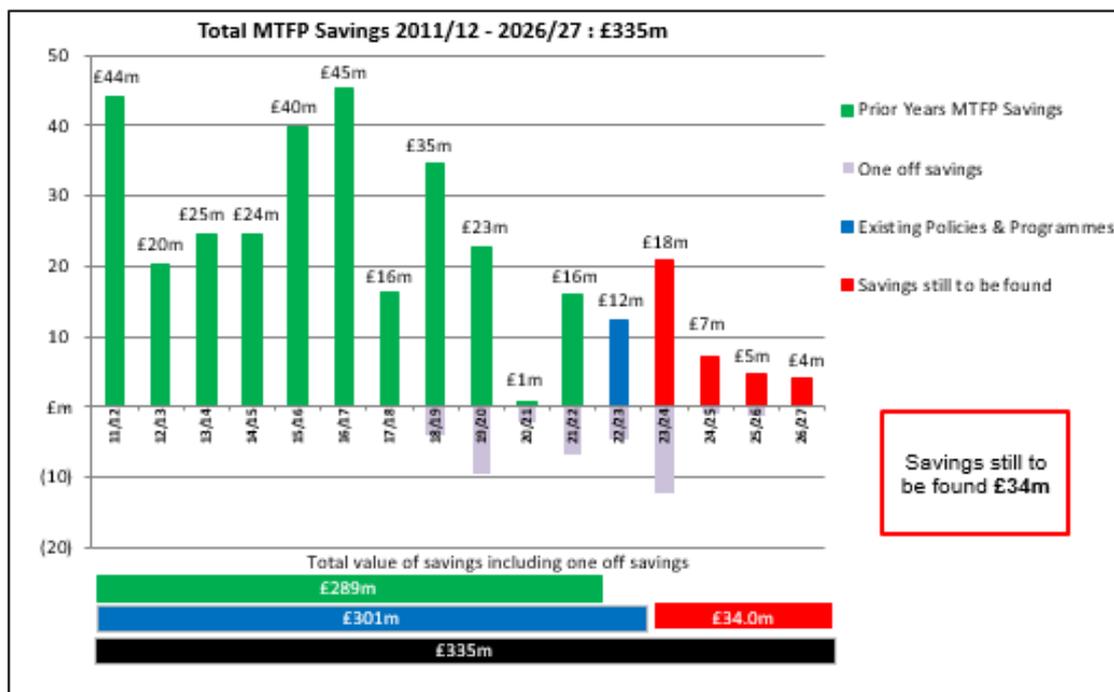
85. As can be seen from the information contained within Table 7 not all the savings proposed in the current MTFP are permanent, such is the challenge of achieving budget reductions in this context.

Table 7	2011/12 to 2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	Total
Summary of Saving	£m	£m	£m	£m	£m	£m	
<i>Prior Years MTFP Savings</i>	298.684						298.684
<i>Previously agreed MTFP savings removed (net)</i>	(9.975)	0.000	0.000	0.000	0.000	0.000	(9.975)
<i>New savings identified</i>		12.251	0.000	0.000	0.000	0.000	12.251
<i>Savings still to find</i>			18.498	7.166	4.701	4.004	34.369
Total required (net)	(9.975)	12.251	18.498	7.166	4.701	4.004	36.645
Total Savings	288.709	46.620					335.329

For information - savings to be delivered each year must include the replacement of previous years one off savings as shown below, these figures are included in the total savings required above.

Replacement of PY one off savings		4.699	0.637	1.008	1.383	0.000	7.727
Replacement of 2022/23 one off savings			11.682	0.000	0.000	0.000	11.682

86. This results in an estimated total of **£335 million** of savings being required to maintain a balanced budget for the County Council over the 16 year period from 2011/12 to 2026/27 if it was to remain as the County Council.
87. The extent of the financial sustainability challenge is set out below.



88. There are a number of risks that could impact on the Final Budget Gap position that will be presented to Cabinet in January 2022 and Council in February 2022 These include:

- The medium and long-term impact of COVID-19 on the Council and wider economy.
- Spending Review 21 and the draft Local Government Finance Settlement (not expected to be announced until mid-late December 2021) and associated grant funding announcements.
- District Council's confirmation of the Business Rate and Council Tax assumptions in January 2022; and
- Q2 budget monitoring position will be reported to Cabinet in December 2021 and any further impact on pressures in respect of the delivery of savings and programmes already assumed in determining the base budget or indeed the step up/continuation of savings will be reviewed.

Consultation and Engagement with the Community

89. The consultation document which will be launched after the Cabinet meeting asks for feedback from the public on the proposed 1.99% increase in Council Tax for general purposes in 2022/23. An increase of 1.00% to support Adult Social Care Services, is in line with the 2021/22 MTFP and is also assumed in the Budget Proposal.
90. The budget proposals in Table 6 can be achieved within existing council policies and procedures and they do not impact on front facing services and therefore, do not require wider public consultation.
91. Equality Impact Assessments will be undertaken where relevant and included in the Budget Report to Cabinet in February 2022.

Options Considered and Risks Identified

92. Cabinet may wish to approve, reject or suggest amendments to the proposed approach to meeting the budget challenge and the proposed increases to general Council Tax.

Reasons for the Recommendation / Key Benefits

93. In accordance with the Constitution the recommendations have been made to Cabinet to enable decisions to be made to allow for the preparation of the 2022 – 2027 MTFP.

Financial - What Resources will be Required and how will it be Funded?

94. The resource and value for money implications are covered throughout this report.

Legal Aspects – What needs to be considered?

95. The Local Government Finance Act 1992 provides that the Council must approve a balanced budget for each financial year. In order to do this, it is required to calculate its Council Tax Requirement each year which will be the level of Council Tax which will be required to be raised in order to produce a balanced budget.
96. The Council is under no statutory duty to consult about the level of Council Tax proposed to be raised unless the increase is excessive. The level of increase which will be treated as excessive is decided in accordance with a set of principles set by the Secretary of State each year. For 2020/21 an increase was excessive if it was 2% or above. If the proposed rate of increase is excessive the Council has a statutory duty to hold a referendum on the proposed increase.
97. Although the Council is not under a statutory duty to consult about the level of Council Tax it may still determine to do so. If it has consistently consulted about a particular matter in the past there may be an implied promise it will consult on a particular matter and fairness would generally require that it would continue the practice.
98. Any consultation must be fair, in line with the principles that consultation must be at a time when proposals are still at a formative stage; provide sufficient reasons to permit intelligent consideration and response, present options where these exist and allow adequate time for consideration and response. The product of the consultation must be taken into account in finalising the proposals.

Health and Safety Aspects – What needs to be considered?

99. The Council has a legal and moral responsibility to ensure that adequate health, safety and wellbeing is considered in everything that it does.
100. Whilst there are no direct health and safety implications from the Development of the Medium Term Financial Plan itself, all capital and revenue expenditure schemes funded by the Plan will require strong health and safety management, risk assessments, controls and monitoring as per the commitments in the 2021/22 Corporate Health and Safety Policy last approved by Cabinet in July 2021

Council Plan Priority – How do the Proposals Contribute to the Delivery of the Council’s Stated Objectives?

101. The report links to the current strategic planning framework for Cumbria, including the delivery of the Council Plan 2018-2022 priorities. The priorities agreed by Council in February 2019, are:

- People in Cumbria are Healthy and Safe
- Places in Cumbria are Well Connected and Thriving
- The Economy in Cumbria is Growing and Benefitting Everyone

102. The effective management of financial resources is a requirement for making informed decisions when planning and delivering Council services.

What is the Impact of the Decision on Health Inequalities and Equality and Diversity Issues?

103. The Impact on Health Inequalities and Equality and Diversity has been considered as part of the budget development process and will continue to be kept under review as the budget continues to be developed.

Further Information and Background Documents

Appendix A – Budget Consultation (TO FOLLOW)

Appendix B – Medium Term Financial Plan Proposals (2022-2027)

Electoral Division(s): All

Executive Decision	Key Decision Included in Forward Plan	Exempt from call-in	Exemption agreed by scrutiny chair	Considered by scrutiny, if so detail below	Environmental or sustainability assessment undertaken?	Equality impact assessment undertaken?
Yes	Yes	No	N/A	No	N/A	No

Reviewed by Cabinet Member(s) – 28 October 2021

Previous relevant Council or Executive decisions

None

Consideration by Overview & Scrutiny

To be considered at Scrutiny Management Board 24th November 2021

Background Papers

County Council, 18th February 2021, Revenue Budget 2021/22 and Medium Term Financial Plan (2021-2026) and Draft Capital Programme (2021-2026)

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