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Report title: Everyone's Essex Annual Plan and Budget 2023/24 – Part 1: Section 151 Officer's Report	
Report to: Cabinet	
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Date: 17 January 2023	**For:** Discussion
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County Divisions affected: All Essex	

Purpose of the Report

1.1 The report sets out the Section 151 (S151) Officer's statement on the adequacy of reserves; robustness of the 2023/24 revenue budget; the medium-term financial outlook; Financial Strategy; and the Capital and Treasury Management Strategy. The S151 Officer for the Council is the Executive Director for Corporate Services.

Recommendations

2.1 To consider and note this report before making recommendations to Full Council on the revenue budget and capital programme, included within the Annual Plan.

Assurance Statement of the S151 Officer (Executive Director for Corporate Services)

3.1 I have examined the budget proposals and, whilst the spending and service delivery proposals are challenging, they are achievable given the political and management track record and current plans to implement the changes. The resources available to the Council are being targeted to achieve the strategic aims outlined in Everyone's Essex.

3.2 The Council has a good track record on financial management and delivering savings, and continues to work to deliver its required savings in 2022/23 of £36m against a £1.1bn budget.

3.3 The level of reserves is appropriate but requires continual monitoring given the risks and volatility of demand, prices, and inflation. We will continue to report fully each quarter to Cabinet on the reserves position.

3.4 The 2023/24 revenue budget and the capital programme are included elsewhere on the agenda. Whilst the budget shown for 2023/24 is balanced and robust, there remains a gap between our estimated spend and assumed funding from 2024/25 and onwards.

3.5 The Government's one-year provisional local government financial settlement for 2023/24 and linked Policy Statement has given some additional certainty around the future of many general government grants for the next two financial years. However, there remains uncertainty around the future of general government grants from 2025/26 onwards. Additionally, there is no confirmation of how the Social Care grant, Services grant, and other grants announced in the provisional settlement, will be allocated from 2024/25 onwards. This presents risk to the financial stability of the Council, if these grants were to be discontinued, or if the Council's allocation were to reduce.

3.6 It is imperative the Council maintains focus on financial sustainability and continues the drive to deliver a balanced budget over the medium term, with a strong focus on transformation.

Background

4.1 The S151 Officer is required to make a statement on the adequacy of reserves and the robustness of the budget. This is a statutory duty under section 25 of the 2003 Local Government Act.

4.2 The budget is a financial plan of the Organisation's Strategy and forms part of the Annual Plan. The budget is delivered through Cabinet Members who have a portfolio responsibility for several services, which will deliver the strategic aims and priorities of the Everyone's Essex plan.

4.3 This report concentrates on the draft 2023/24 revenue budget, level of reserves and capital programme as set out elsewhere on this agenda. It considers key medium-term risks and issues faced by the Council in arriving at the recommended budget and reserves.

Current Financial Context

5.1 The Council continues to operate in a climate of uncertainty and volatility. Inflation hit a 40 year high during 2022/23 and a period of high sustained inflation is expected for at least another year. Additionally, Covid-19 has continued to have an impact on our patterns of spend and activity.

5.2 Social Care and Health portfolios represent £1,093m of gross spend (65% of total budget) - the Adult Social Care and Health portfolio alone represents £810m gross or 48% of the budget*. During 2022/23 we are experiencing pressure on both adults and children's services. The care market, post Covid, continues to struggle with capacity and there is uncertainty around both the timing and financial impact of care reform. We are seeing the emergence of significant pressures on Children's Services, with rising demand for placements and increasing costs, which is a national issue. The unprecedented levels of inflation have caused a significant pressure across services in 2022/23 (£18m reported as at Q3) which is driven by energy costs. The General Risk Reserve which was established as part of the 2021/22 provisional outturn in order to mitigate future cost pressures, has allowed us to contain the pressure; an example of the importance of a prudent reserves strategy to manage exceptional costs in these volatile economic times.

*`*excluding pass through DSG*

5.3 For 2023/24 and beyond, it is not possible to precisely forecast demand patterns as we continue to deal with the aftermath of the pandemic and enter what is forecast as a prolonged recession by the Bank of England. We are experiencing increased demand and price pressure, coupled with a sustained period of high inflation. We will continue to closely monitor the anticipated emergence of pent-up demand for services. Retaining appropriate levels of reserves to provide for exceptional demand and price increases is critical to the financial sustainability of the Council.

5.4 Going forwards, we expect inflation pressure to begin to subside during 2023/24 and the Medium Term Resource Strategy (MTRS) has been set in accordance with the inflationary position set out by the Bank of England with a return to levels close to the Bank's target rate of 2% from 2024/25. It is hoped that this will bring some much needed economic stability.

5.5 The 2023/24 budget is based on anticipated income for both council tax and business rates based on the final returns submitted by the district councils. However, the districts are allowed by law to amend these returns until the 31st January 2023. These funding sources account for 84% of our total funding budget. Central government has announced several changes to business rate reliefs and valuations, due to come into effect in 2023/24. If districts were to resubmit their final returns and NNDR1 forms with material changes, this would impact on the Council's funding position and future spending plans.

Revenue Budget

6.1 If it accepts the recommendations in the budget report, the Council would plan to spend £2.3bn in 2023/24 (including schools). After income, this equates to a net expenditure budget of £1.2bn (£1,164.2m), an increase of £74.3m, (6.8%) on 2022/23.

6.2 The total pressures on the budget for 2023/24 are £116m and the material pressures are outlined as below:

6.3 Recurring costs include:

- £30m social care inflation, including the impact of increases to National Living Wage

- £26m other inflation (e.g. on contracts) with significant increases on energy where we have experienced inflation of 200%
- £19m impact of "adult client activity" where packages of care end and may be replaced with more costly packages due to changes in need
- £12m pay inflation
- £7m pressures in Children's Services, mainly relating to placements
- £6m pressure in the Waste Service, mainly where the budget has been increased to mitigate non-delivery of historic savings in the base budget
- £5m increase to the cost of financing the capital programme
- £4m where the 2022/23 budget was balanced using one off savings
- £7m total impact of all other smaller pressures.

6.4 In addition to the known pressures reflected in the budget there are a series of risks that are being managed through the reserves strategy (see section 11 for details on reserves). Some of the risks include:

- Inflation, interest rate risk and borrowing risk on the capital programme
- Fragility of our funding position given the national economic outlook and inherent uncertainty on funding beyond 2023/24
- Demand and price pressures in Children's social care.

6.5 Resource has also been set aside through the reserves strategy to enable additional strategic choices, including:

- New investments in strategic priorities to deliver Everyone's Essex, including levelling up, skills and climate action
- To meet the future cost of replacing key council technology systems and the digitisation of public services.

6.6 The combination of these pressures most significantly impacts the Adult Social Care and Health portfolio with a gross base revenue growth of £104m.

6.7 The budget assumes £36m of savings to balance the 2023/24 budget. Of these £32m are recurrent and £4m are one off savings. These include continuation of the Meaningful Lives Matter Programme supporting adults with learning difficulties, which is now in its third year; the ongoing Connect Programme that will continue to ensure the most appropriate support is offered to older people going into and leaving hospital, making better use of technology solutions in provision of care; making more efficient use of our buildings and reviewing staffing across the Council.

Funding and Taxation

Taxation

7.1 Increases to the social care precept alongside an increase to the general level of council tax is expected to yield **£27.0m** in 2023/24.

	Tax Rise %	Increase Tax Yield £m
2023/24 Adult Social Care Precept	2.0%	15.4
2023/24 Council Tax Rise	1.5%	11.6
Total Increased Tax Yield for 2023/24	**3.5%**	**27.0**

7.2 The draft referendum principles published by the Department for Levelling Up, Housing and Communities would require a referendum only if council tax is increased by 5% or more in 2023/24. Government has set the referendum cap for the core Council Tax element at 3%, but the Council is proposing to only increase core council tax by 1.5%. This increase will yield an additional **£11.6m** in 2023/24.

7.3 In addition, local authorities with social care responsibilities can increase council tax, if the money raised is spent on adult social care, through the 'adult social care precept' by up to 2%. It is proposed the full adult social care precept of 2% is raised, yielding a further **£15.4m**. It is critically important that we are able to sustainably raise the revenue in the base budget, to fund the major ongoing cost pressures on the adult social care budget as outlined in 6.6.

7.4 Council tax collection has remained relatively resilient during 2022/23 and the short-term outlook remains robust, with a slight decrease forecast in the collection rate of 0.1% in 2023/24. There is inherent risk around the volatility of the economy and the cost of living crisis. To provide some mitigation for this, the balance on the collection fund risk reserve has been raised to £24.8m, which would provide some support for any future reduction to the tax base; for illustration purposes this represents less than 1% of the council tax collection forecast over the medium term resource period to 2026/27.

7.5 The taxbase for 2023/24 is 550,992 Band D equivalent properties, which is a 1.11% increase from 2022/23. This brings in a total budgeted council tax of **£799.0m**. There has been 0.87% growth in housing across the county, and a 2.26% decrease in households claiming Local Council Tax Support (LCTS), where their household income has fallen below a certain threshold. At present around 8% of households do not pay the full amount of council tax, with 4% exempt in full, and 4% paying a substantially reduced rate due to their means or status.

7.6 It is estimated Non-Domestic rates for 2023/24 will yield **£179.8m**. However, this level of rates is underpinned through grants from government to offset the reliefs provided to businesses announced in the Autumn Statement – this gives inherent risk in the sustainability of the base once reliefs end, particularly given the length of time reliefs have been applied for, and needs careful attention. It is also expected that non-domestic rates may form part of the Fair Funding review.

7.7 As part of the Chancellor's Autumn Statement, central government announced increases to business rate relief and financial support for local businesses in 2023/24. This support includes increasing the reduction in rates paid by businesses in the retail, hospitality, and leisure sectors from a 50% reduction in business rates paid in 2022/23, to a 75% reduction in 2023/24. The government also announced the continued freeze of the business rates multiplier for the next two years and temporarily capping the increase in rates paid by businesses if their premises is due to experience an upwards revaluation as part of the national revaluation that will come in to effect from 1st April 2023. Local authorities will be fully compensated for these policies, and therefore the Council is forecasting an increase in the Section 31 Grant from £28.1m in 2022/23 to £35.8m in 2023/24.

Government Grants

7.8 The Provisional Local Government Finance Settlement from Central Government confirmed the majority of announcements in the Autumn Statement. The Services grant, outlined by government, will continue into 2023/24, but with a substantial reduction in the amount of funding provided. The Council will receive £6.9m in 2023/24, which is a £5.3m reduction in funding compared to last year. It was also announced there will be additional general funding for social care, from which the Council will receive an extra £31.6m compared to 2022/23 allocations. Combined with the yield from the adult social care precept (£15.4m), funding for social care in 2023/24 has increased by £47m. This has enabled the Council's increased investment in social care given the pressures faced, where the combined adults and children's social care net expenditure budgets have increased by £45m to £652m, as well as the addition of £5m to the Children's Risk reserve for potential additional cost risks, and £21.6m to the Adult Social Care Transformation reserve to support work on preparing for the implementation of fair cost of care in 2025.

7.9 The Provisional Settlement also confirmed the continuation of the Revenue Support Grant (RSG) of £21.3m. The medium-term strategy assumes that RSG will continue at this level, however there is no formal confirmation from government of funding from 2025/26 onwards, so this presents an inherent uncertainty from 2025/26 and will likely be tied into the Fair Funding review for local government.

7.10 The uncertain funding position makes it more complicated to plan for the long term. We expect to receive £210m of specific government grants in 2023/24, aside from grants passported to schools. These grants are only guaranteed to 31 March 2024. Without certainty of multi-year agreements, we need to plan on a broad range of funding assumptions.

7.11 For the Dedicated Schools Grant (DSG), total funding for 2023/24 increases by £63.1m. With increases to the Schools Block (£34.3m), High Needs Block (£23.4m), Early Years Block (£5.2m) and the Central School Services Block (£164,000). There was only a one-year funding announcement for DSG.

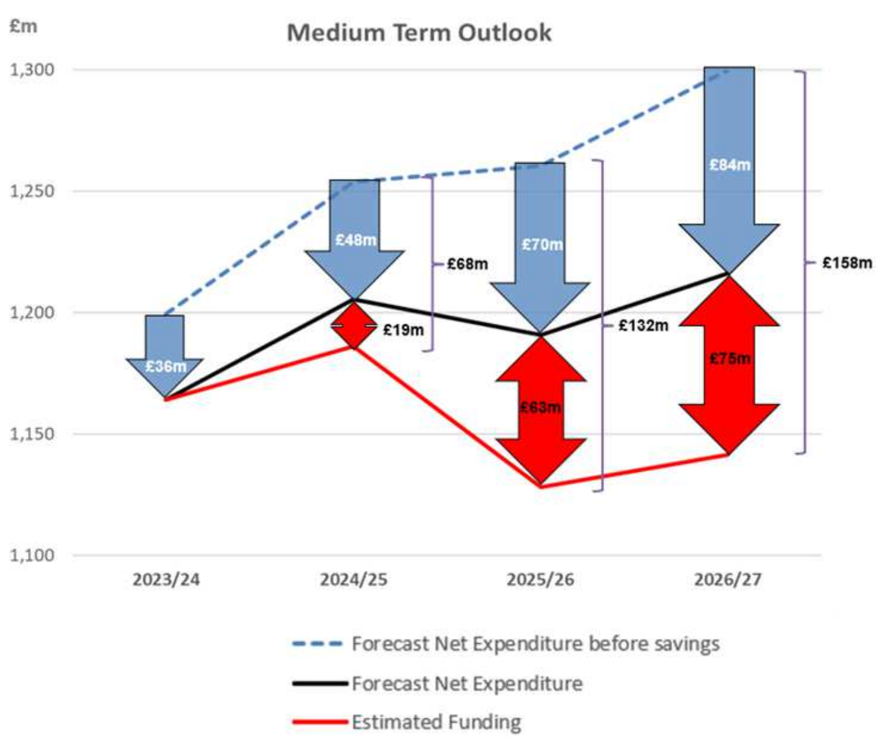
Other

7.12 Furthermore, we rely on a significant amount of income from fees and charges, budgeted at £134m in 2023/24, an increase of £11m from 2022/23. We will manage risk around income generation through close monitoring of fees and charges to ensure we are able to act as and when issues of sustainability arise.

Financial Strategy

8.1 This report proposes a balanced budget for 2023/24. There is reliance on one off savings and technical adjustments to close the budget gap of £19m, including nearly £10m being drawn down from the Waste Reserve to mitigate pressure on the Waste budget. This means the 2023/24 budget has a structural deficit of £19m or 1.6% which will need to be permanently resolved in future years. The reliance on one off savings is comparable to that in 2022/23 and it is the opinion of the s151 that it carries an acceptable level of risk, however this will still need to be appropriately managed through the 2024/25 budget.

8.2 The medium range scenario for future years indicates a gap between the Council’s expected funding streams and the Council’s expenditure. After delivering 100% of all existing planned savings, the gap is expected to be £19m in 2024/25 rising to £75m by 2026/27, before further tax rises. The outlook for the authority is set out below, however this mid range scenario is likely to change given the context of Fair Funding Reform for local government and the uncertainty around cost of care reforms.



8.3 The Council has a robust savings, income and efficiency programme which enables setting a balanced budget for 2023/24 with a further £48m of savings out into 2024 to 2027. In 2023, there will be renewed focus on looking at further ways to transform the Council and identify ways to drive further savings, including through use of technology and digitisation, and the redesign of services and different ways of working with partners.

Capital Programme and Treasury Management

9.1 The Council has indicated, within the budget proposals, an aspiration to invest considerable sums through the capital programme over the next four years. The capital programme aspirations will deliver a range of schemes to maintain, enhance and deliver new assets, such as investment in Chelmsford's proposed new Beaulieu Park Train Station and North-Eastern Bypass and Colchester/Tendring A120 A133 link road, as well as highways maintenance and providing new school places. The capital programme also includes schemes to help to deliver revenue savings, such as the Essex Housing Programme to redevelop redundant Council property. To the extent that the Council must borrow to pay for this investment, it will incur borrowing costs, which must be funded from the revenue budget.

9.2 The revenue costs of borrowing to finance the capital programme will rise from 8.4% of the net budget in 2022/23, to an estimated 12.2% by 2026/27. There is inherent risk of cost escalation due to inflation and higher borrowing costs should base rates rise above the rate of borrowing that has been built into the MTRS. However, it is key the Council continues to look to manage within the budgeted cost envelope of the capital programme, through reprioritisation and rescoping, to ensure that there is no further increase in the capital programme budget to 2026/27.

9.3 Whilst the Council can determine its own programmes for capital investment that are central to the delivery of quality public services, it must be satisfied, and able to demonstrate, that these programmes are affordable, prudent, and sustainable. In doing so, the Council must have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code).

9.4 The Prudential and Treasury Management Codes require the Council to produce a Capital and Treasury Management Strategy which explains how the Council takes capital expenditure, investment, and treasury management decisions and how it takes account of stewardship, value for money, prudence, sustainability, and affordability. The full strategy is shown in Appendix A, Annex 3 and the Corporate Policy and Scrutiny committee was consulted on this document in December 2022. The Executive Director for Corporate Services is required to report explicitly on the affordability and risk associated with this strategy.

9.5 In order to demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability, the Capital and Treasury Management Strategy:

- Sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.
- Provides an overview of the governance process for approval and monitoring of capital expenditure. These processes are well established and have been highly effective in recent years in ensuring the delivery of the Council’s capital investment plans.
- Provides a projection of the Council’s capital financing requirement, how this will be funded and repaid.
- Sets out the Council’s borrowing strategy and explains how the Council will discharge its duty to make prudent revenue provision for the repayment of debt.

9.6 The Capital and Treasury Management Strategy, and the indicators provided in Appendix A Annexes 3A and 3B, show that the capital financing requirement, external borrowing levels and costs of borrowing are all on an upward trajectory. This reflects the substantial level of capital investment being undertaken by the Council. A focus of some of the capital programme is upon ‘invest to save’ initiatives and upon economic regeneration. Hence, the increases in borrowing, and the costs associated with this borrowing, may be partly mitigated by revenue savings and additional income generation (e.g. additional housing and businesses providing tax revenues).

9.7 In the longer term, it will not be possible to sustain this level of capital investment without the greater achievement of savings, generation of income and increased funding.

9.8 The Council’s approach to treasury management investment activities is set out in Appendix A (Annex 3 page 94) and includes the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed. The treasury management investment strategy proposed for 2023/24 is consistent with that applied in previous years.

9.9 The Council has a good track record with regard to its treasury investment activity, adhering to statutory guidance by giving priority to security and liquidity over yield. In addition, Internal Audit has consistently issued ‘good’ assurance opinions on the management of these activities, confirming that internal controls are in place and adhered to.

9.10 The Council's policies, objectives, and approach to risk management of its treasury management activities is set out in the Strategy, alongside the knowledge and skills available to the Council, and provides confirmation that these are commensurate with the Council's risk appetite.

9.11 The Capital and Treasury Management Strategy also provides an overview of the Council's current approach to other investment activities.

9.12 All other investment activities entered into so far have been subject to approval in accordance with the Council's governance framework for decision making and giving due regard to risk and proportionality.

9.13 The distinct, but inter-related, elements of the Capital and Treasury Management Strategy collectively demonstrate that the Council's capital expenditure and investment decisions properly take account of stewardship, value for money, prudence, sustainability and affordability, by setting out the long term context in which capital expenditure and investment decisions are made, and by having due consideration to both risk and reward and impact on the achievement of priority outcomes.

Dedicated Schools Grant (DSG)

10.1 The DSG is part of the Council's budget and is made up of 4 blocks: Schools, High Needs, Early Years and Central School Services. The Schools Block is passported directly to schools and is managed by schools. A significant proportion of the Early Years Block is passported to early years providers. The High Needs and Central School Services blocks are managed by the Council.

10.2 Total funding for 2023/24 increases by £63.1m; the Schools Block increases £34.3m, the High Needs Block increases £23.4m, the Early Years Block increases £5.2m and the Central School Services Block increases £164,000

10.3 In addition to this, further funding was announced in the 2022 Autumn Statement which will be paid as a Mainstream Schools Additional Grant for 2023/24 but will be baselined in DSG for 2024/25. Mainstream schools receive an additional £37.1m. The High Needs Block increased by £9.2m and this is reflected in the allocation in 10.2. This results in a total increase in funding of £100.2m for 2023/24.

10.4 The increased funding will keep the High Needs Block with a surplus balance, however the demand for Education, Health and Care Plans continues to increase. Further increases are anticipated from the £3.5bn increase in school funding in 2024/25.

10.5 The Department for Education (DfE) has stated that with the increase in funding to the High Needs Block it expects local authorities to only request transfers from the Schools Block in exceptional circumstances. The Council has not made any requests for 2023/24. Should the increase in funding in future years not be sufficient the Council will request a transfer from the Schools Block.

10.6 The DSG currently has an under spend due to the Early Years Block, this position will be monitored for future volatility in the number of take up hours, plus may allow potential plans for early intervention projects to be drawn up. It should be noted that the increased demand for special educational needs and disabilities also impacts on Non DSG services, namely, Home to School Transport and Transitions.

Reserves

11.1 Reserves are defined in Sections 31A, 32, 42A and 43 of the Local Government Finance Act 1992. This requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.

11.2 Reserves play an essential part in the financial strategy and provide a cushion against the significant risks the Council faces, and a source of funding of business cases to change the way it provides services and achieves future savings. The continued provision of adequate reserves is essential in medium term planning. Without these, it may be necessary to take remedial urgent action in-year to mitigate challenges that arise, which could lead to longer term consequences.

11.3 We define our reserves in two ways:

- **Restricted reserves** – reserves where the authority to commit the funds rests elsewhere (e.g. amounts held on behalf of schools and partnerships) and those held for managing cyclical spending or long term commitments (e.g. those associated with long term contracts such as Private Finance Initiative (PFI) and waste). These total £224m.
- **Unrestricted reserves** – reserves earmarked to support the medium to longer term plans of the Council (e.g. those earmarked to enable it to transform and invest to save); and contingent reserves (amounts that are available to the Council to meet contingent expenditure). This category of reserves total £235m.

Over the next four years the Council is anticipating that it will draw down from unrestricted reserves for investment in developing strategic priorities in line with the ambition of the Everyone's Essex plan.

11.4 During 2023/24, £86m is expected to be drawn down from unrestricted reserves – a significant proportion of this (£26m) is from the Adults Transformation Reserve to utilise additional social care grant funding received from central government in the provisional settlement. £14m is expected to be applied from the Everyone's Essex Reserve to deliver initiatives associated with the strategic priorities of the Everyone's Essex plan. This will include positive Climate

Change activities, supporting the Levelling Up agenda, Economic Recovery and Heritage and Arts investments. Additionally, it is anticipated that there will be calls on the Transformation Reserve (£13m) and Technology and Digitisation Reserve (£9m) to finance investment in innovation and ongoing change across the Council.

11.5 Within the budget plans are in place for net contributions of £75m to reserves in 2023/24. The largest contributions are to the Adult Transformation Reserve (£22m), Transformation Reserve (£12m), General Risk Reserve (£10m), Collection Fund Risk Reserve (£8m), Technology and Digitisation Reserve (£5m) and Children's Risk Reserve (£5m).

11.6 By 2026/27 it is anticipated that the balance of unrestricted reserves will have reduced to £184m (a reduction of £51m or over 20%). The reduction mainly relates to the Everyone's Essex Reserve (£32m) as it is utilised to fund strategic priorities.

11.7 Whilst the level of unrestricted reserves is not enough to cover the funding gaps longer term, as set out earlier in this report, the authority's record on financial management and delivery of savings is such that it is highly unlikely that this level of usage of reserves would be required to fund the gap.

11.8 The authority also has a General Balance, which is an un-ringfenced reserve set aside to allow the Council to deal with unexpected events or costs at short notice. The general reserve balance is held at 6% of net revenue budget in recognition of the level of risk associated with the pressures the Authority may face. The balance is £68m, which is enough to fund the Council's activities for 21 days.

Risks

12.1 There are several risks associated with the budget:

12.2 The ongoing risk of inflation and the emergence of new burdens could contribute to the non-delivery of savings in 2023/24 with a knock-on impact in 2024/25. There is also the risk that plans cannot be developed in-time to fully offset or mitigate these challenges. Officers carry out a delivery risk assessment before the budget is set to test the readiness to deliver the savings as planned in the budget. At this stage, 37% (£13.2m) have a high level of confidence, with 40% (£14.2m) medium risk and 23% (£8.2m) of savings have a high level of delivery risk. At this stage these planned savings have a similar level of delivery confidence to that at this point last year.

12.3 The one-year provisional local government financial settlement for 2023/24 and linked Policy Statement has given some additional certainty around the future of many general government grants for the next two financial years. However, there remains uncertainty around the future of general government grants from 2025/26 onwards. Additionally, there is no confirmation of how the Social Care grant, Services grant, and other grants announced in the provisional settlement, will be allocated from 2024/25 onwards. If these grants were to be discontinued, or if the Council's allocation were to reduce, this would adversely impact the Council's funding position.

12.4 The introduction of the expected fair funding reforms, which will look at redistribution of government funding to areas of need, does not have a confirmed implementation date. This could result in the Council receiving a reduced level of funding from government in the medium to long-term. The impact of this will remain unknown until further information is provided.

12.5 The emergence of new unfunded burdens in social care and other areas of the organisation that are currently unknown could create financial pressures. The Council will need to remain vigilant in identifying these pressures and develop plans to mitigate or resolve these pressures as they emerge.

12.6 Pressures in the Adult Social Care market have increased steadily over the past 18 months and are now challenging the capacity of the market to meet demand, resulting in a destabilised market, with a heightened risk of provider failure. Despite the award of additional monies as set out in section 7.8, the funding made available remains lower than the required growth in the resources for Adult Social Care between 2022/23 and 2023/24 (£58m). Furthermore, it is unclear whether these funding streams will continue beyond 2024/25, and what additional demand pressures the Council will be experiencing by that point, creating a high risk of additional cost pressures impacting the Council. Whilst this is predominantly focussed on the Adult Social Care market, there is a risk other markets may begin to be impacted.

12.7 The extent and management of social care demand is a significant risk given that people are living longer, may have greater care needs, and the Council is experiencing more complex cases within both Adult's and Children's services. However, these areas are monitored closely to allow action to be taken at the earliest opportunity to manage this risk position. The Council has a good record of managing this risk as is evident from the financial review reports provided to Cabinet during the year.

12.8 There are assumptions included in the budget for an increase in the National Living Wage, however any change to this by government will have a significant financial impact on the budget, because there will be increased demand for rate increases from contractors. The precise profile of these increases over the medium-term are unknown, however, increases will likely be strongly correlated with inflation, and therefore, if inflation remains higher than assumed, this will potentially create a financial pressure for the Council.

12.9 There is a growing risk that unemployment rates will rise in the new year, which may hit the local tax base and business rates. The rising cost of living and the projected rise in energy costs during 2023/24, despite existing and future government support, will likely put residents and local business under increased financial pressure.

12.10 Although the districts are not yet forecasting a reduction in the adjusted tax base, there is a risk that residents could prioritise paying essential bills over taxes, and that businesses will be unable to continue operating in existing premises when the bulk of NNDR reliefs end, which is expected to occur on the 1st April 2024.

12.11 Central government provided a £150 tax rebate to all Bands A - D households during 2022/23. However, the only direct council tax support confirmed for 2023/24 is the Council Tax Support Fund, which enables billing authorities to provide an up to £25 discount on council tax bills for households in receipt of Local Council Tax Support (LCTS). Unless further support is confirmed, this increases the risk that households will not be able to afford their council tax bills. If this risk were to materialise, it would greatly impact on the Council's funding base.

12.12 The economic outlook has also deteriorated in recent months. The increasing rate of inflation and rising interest rates are forecast to stunt economic growth, leading to a recession during 2023. A slowdown in economic recovery beyond what we have anticipated could create further pressure on medium-term budgets. The forecast economic slowdown could have a particularly adverse impact on our 2023/24 and 2024/25 council tax and business rate budgets.

12.13 The rate of inflation is currently at a 40-year high (latest CPI of 10.7%, November 2022), and there is substantial uncertainty around how high the rate may go, and over what period of time it prevails. The Bank of England (BoE) and other economic forecasting agencies have suggested that inflation has peaked, and that CPI will reduce substantially during 2023. However, CPI is not forecast to fall to the BoE's 2% target until 2024. The Council has based its cost assumptions over the medium-term on the BoE's inflation projections, and therefore if this period of high inflation continues for longer than expected, this will create financial pressure on the cost of delivering services and paying the Council's employees.

12.14 Further potential increases to the Bank of England's base interest rate may create cost pressures for the Council, particularly in relation to borrowing for the capital programme. The sharp increases in interest rates during recent months have been accounted for in the Council's financing assumptions, however, if the BoE were to raise interest rates by more than expected, this will put greater financial pressure on the revenue cost of borrowing and the Council's financial position. This will continue to be monitored both for short term impact, and potential medium-term scenarios.

12.15 The 2023/24 budgets for both council tax and business rates are based on the final returns submitted by the district councils. However, the districts are allowed by law to amend these returns until the end of January 2023. These funding sources account for 84% of our total funding budgets. Central government has announced several changes to business rate reliefs and valuations, due to come into effect in 2023/24. Furthermore, the economic outlook for the UK remains volatile over the medium-term. If districts were to resubmit their final returns and NNDR1 forms with material changes, this would impact on the Council's funding position and future spending plans. For context, a 1% reduction in council tax income is equal to almost £8m funding each year.

12.16 Finally there is the potential for a negative impact on fees and charges budgets as a result of an economic downturn. For context, the fees and charges budget for 2023/24 is £134m.

Control environment

13.1 In building the budget and considering the risks inherent within it, it is important that the Council considers not only the level of reserves available to support it, but the wider control environment which will help to manage and minimise those risks. This includes:

a. the approach to financial planning and monitoring with budget holders
b. a strong accountability framework which sets out clear roles and responsibilities in terms of financial management
c. regular and accurate reporting to Members and senior officers
d. performance reporting
e. internal audit function assessing controls and processes.

13.2 These processes are robust, and it is important that continued focus is given to these by the senior leadership of the Council to ensure this remains the case. These processes provide an early warning system to potential problems to enable appropriate action to be taken if necessary, in a calm and measured way.

13.3 The Council has completed its self-assessment of the CIPFA Financial Management Code, which was included in the Annual Assurance Statement for 2021/22 presented to the Audit, Standards and Governance Committee and Council. The self-assessment concluded all 68 areas were fully met, however a 6 point action plan is underway to support continuous improvement in delivering against the Financial Management Code.

13.4 However, it must be recognised that these steps will not eliminate risk entirely, especially for those that come externally. There are further measures that can be taken to diminish the overall financial effect of these risks, including:

a. slowing down or stopping spending
b. increasing income elsewhere; or
c. moving funds around the organisation.