

**Forward Plan Reference Number: FP/038/02/23**

<b>Report title:</b> Everyone's Essex Annual Plan and Budget 2024/25 – Part 1: Section 151 Officer's Report	
<b>Report to:</b> Cabinet	
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<b>Date:</b> 16 January 2024	<b>For:</b> Discussion
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<b>County Divisions affected:</b> All Essex	

**1. 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 2024/25 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.

**2. Recommendations**

- 2.1 That Cabinet considers and notes this report before making recommendations to Full Council on the revenue budget and capital programme, included within the Annual Plan.

**3. 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 2023/24 of £36m against a £1.1bn budget.
- 3.3 The level of reserves is appropriate but requires regular 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 recommended 2024/25 revenue budget and the capital programme are included elsewhere on the agenda. Whilst the budget shown for 2024/25 is balanced and robust, there remains a gap between our estimated spend and assumed funding from 2025/26 and onwards.
- 3.5 There remains significant uncertainty around the future of general government grants from 2025/26 onwards. There is no confirmation of ECC's allocation for the Social Care grant, Services grant, and other grants announced in the provisional Local Government Finance settlement, from 2025/26 onwards, nor has it been confirmed that funding from these grants to local authorities will even continue beyond the end of 2024/25. This presents substantial risk to the financial stability of the Council if these grants were to be discontinued, or if the Council's allocation were to reduce. In 2025/26, 14% of the Council's gross expenditure budget is forecast to be funded by either general government grants or specific grants that are unconfirmed beyond 2024/25. ECC's allocation of the services grant was reduced by 84% between 2023/24 and 2024/25, an unexpectedly large decrease in funding, which demonstrates the risk of assuming grants will continue throughout the medium-term.
- 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.

## **4 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 Local Government Act 2003.
- 4.2 The budget is a financial plan of the Organisation 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 2024/25 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.

## **5 Current Financial Context**

- 5.1 The Council continues to operate in a climate of uncertainty and volatility. Inflation has begun to reduce, although is still double the Bank of England target rate, while interest rates are at their highest level since 2008. Additionally, we continue to see the impact of the pandemic on our spend and activity.

- 5.2 Social Care and Health portfolios represent £1.1bn of gross spend (64% of total budget) – the Health, Adult Social Care and ICS Integration portfolio alone represents £905m gross or 51% of the budget<sup>1</sup>. During 2023/24 we are experiencing pressure on both Adult's and Children's Services, as well as on Home to School Transport. The care market continues to struggle with capacity, and there is still uncertainty around the timing and financial impact of potential care reform. We are experiencing pressures on Children's Services despite significant investment in the budget this year. There is rising demand for placements and increasing costs, driven in part by lack of sufficiency in the market, with similar issues being faced across the country. £5m was set aside in the Children's Risk reserve as part of 2023/24 budget setting in order to mitigate any further growth in Children's cost pressure, however the scale of pressure being experienced has exceeded that sum; a demonstration of the importance of a prudent reserves strategy to manage exceptional costs in these volatile economic times. High levels of inflation have continued to cause pressure across budgets in 2023/24 (£16m reported as at Quarter 3) which is driven by increasing social care costs.
- 5.3 For 2024/25 and beyond, it is not possible to precisely forecast demand patterns as we continue to see different trends compared to pre-pandemic, and a volatile macroeconomic environment. We are experiencing increased demand and price pressure, coupled with inflation running higher than the Bank of England target, and National Living Wage (NLW) growing at 9.8%. It is important that the trends on service demands are closely monitored through the coming year. 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 forward, we expect inflation pressure to recede during 2024/25, 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 around the target rate of 2% from 2025/26. Interest rates are expected to continue at levels much higher than we have experienced over the previous 15 years and this has been factored into our cost of borrowing for the capital programme.
- 5.5 The 2024/25 budget is based on anticipated income from both council tax and business rates based on the final returns submitted by the district councils. The districts are allowed by law to amend these returns until the 31<sup>st</sup> January 2024, therefore these are subject to change. These two funding sources account for 91% of the Council's net funding streams (excluding specific grants). Central government has announced several changes to business rate reliefs, due to come into effect in 2024/25, such as the splitting of the small and standard business rate multiplier, requiring substantial changes to the way both business rates income and the Section 31 compensation grant for reliefs are calculated (explanation of risk set out in Section 12.11).

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<sup>1</sup> Excluding Dedicated Schools grant which is 'passed through' to schools.

## **6 Revenue Budget**

- 6.1 If Council and Cabinet accept the recommendations in the budget report, the Council would plan to spend £2.5bn in 2024/25 (including schools). After income, this equates to a net expenditure budget of £1.1bn (£1,147.9m), an increase of £60.8m, (5.6%) on 2023/24.
- 6.2 The total expenditure pressures on the budget for 2024/25 are £100m and the material pressures are outlined as below:
- 6.3 Recurring costs include:
- £42m (9.8%) social care inflation, including the impact of increases to National Living Wage
  - £31m of demographic pressure, most significantly impacting service demand across Children's Services £18m (14.5%) and Home to School Transport £11m (30.4%)
  - £17m (5%) pay inflation
  - £11m (2.5%) impact of "adult client activity" where packages of care end and may be replaced with more costly packages due to changes in need.
- 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 2024/25
  - Demand and price pressures in Children's Social Care and Home to School Transport.
- 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
  - Meeting the future cost of our ambitious Whole Council Transformation programme.
- 6.6 The combination of these pressures most significantly impacts the Health, Adult Social Care and ICS Integration portfolio and the Children's Services and Early Years portfolio with net growth (before savings) of £46m (10.5%) and £28m (23.3%) respectively.
- 6.7 The budget assumes £32m of savings to balance the 2024/25 position. Of these £27m are recurrent and £5m are one-off savings. The savings include continuation of the Meaningful Lives Matter Programme supporting adults with learning difficulties, which is now in its fourth 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; making better use of technology and digital across the Council and reviewing staffing costs, including management cost and layers.

## 7 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 **£40.3m** in 2024/25. This will lead to a total council tax yield of £848m in 2024/25

	Tax Rise	Increased Tax Yield
	%	£m
2024/25 Adult Social Care Precept	2.00%	16.1
2024/25 Council Tax Rise	2.99%	24.2
<b>Total Increased Tax Yield for 2024/25</b>	<b>4.99%</b>	<b>40.3</b>

- 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 2024/25. This 5% is comprised of a 'core council tax' element and an 'adult social care precept'. Government has set the referendum cap for the core council tax element at 3%. The Council is proposing to increase core council tax by 2.99%. This increase alone will yield an additional **£24.2m** in 2024/25.
- 7.3 In addition, local authorities with social care responsibilities can increase council tax by up to 2%, if the money raised is spent on adult social care, through the 'adult social care precept'. It is proposed the full adult social care precept of 2% is raised, yielding a further **£16.1m**. It is critically important that the Council is able to sustainably raise the tax income in the base budget, to fund the major ongoing cost pressures across the adult social care budget as outlined in section 6.6.
- 7.4 Council tax collection has remained relatively resilient during 2023/24 and the short-term outlook remains robust, with a slight decrease forecast in the collection rate of 0.4%, based on the latest data provided by the billing authorities. Several districts have indicated that the impact of the cost of living crisis and economic downturn is beginning to affect some household's ability to pay their council tax bills. However, these districts have also suggested that this will be a short-term issue, and based on the latest budget returns provided by the district councils of Essex, the long-term outlook is that collection rates will increase in 2024/25 and the taxbase will continue to grow. To provide some mitigation for any shortfall in tax collection, a balance of £26.2m is being held in

the collection fund risk reserve, which would provide some support for any future reduction to the tax base. The collection fund reserve is 0.62% of the total local tax collection forecast over the medium-term to 2027/28.

- 7.5 The taxbase for 2024/25 is 557,153 Band D equivalent properties, which is a 1.12% increase from 2023/24. This brings in a total budgeted council tax of **£848.3m**. There has been a 0.98% increase in households across the county, and a 0.94% decrease in Band D equivalent households claiming Local Council Tax Support (LCTS), where their household income is below a certain threshold. At present around 9% of households do not pay the full amount of council tax, with 4% exempt in full, and 5% paying a substantially reduced rate due to their means or status.
- 7.6 It is estimated Non-Domestic rates for 2024/25 will yield **£193.2m**. Rates are underpinned through grants from government to pay for the reliefs provided to businesses announced in the Chancellor's Autumn Statement. Central government announced the continuation of business rate relief and financial support for local businesses in 2024/25 and the business rate multiplier for properties with a rateable value of greater than £51,000 will be increased by 6.62% from 1 April 2024. Businesses in the retail, hospitality, and leisure sectors will receive a 75% reduction in their rates paid in 2024/25. The government also announced the continued freeze of the small business rates multiplier for the next financial year.
- 7.7 It is understood that Local authorities will be fully compensated for the business rate relief policies, and therefore the Council is forecasting an increase in the Section 31 Grant Compensation from £40.8m in 2023/24 to £47.7m in 2024/25. This approach does create inherent risk in the sustainability of the Council's business rate base once reliefs end. The majority of reliefs provided to businesses are currently due to end on the 1 April 2025.

### **Government Grants**

- 7.8 The Provisional Local Government Finance Settlement from Central Government provided new information and confirmed announcements made in the 2023 Autumn Statement, in particular announcements in relation to changes to business rates. However, there is still considerable uncertainty for local government funding as we have no certainty post 2024/25. The Services grant will continue into 2024/25, but was significantly reduced for the second consecutive year. The Council will receive £1.1m in 2024/25, which is an 84% or £6m reduction in funding compared to 2023/24.
- 7.9 The Provisional Settlement also confirmed the continuation of the Revenue Support Grant (RSG) of £22.7m, an increase in-line with September Consumer Price Index (CPI) inflation. The medium term resource strategy assumes that RSG will continue to grow at the assumed rate of inflation, however there is no formal confirmation from government of funding from 2025/26 onwards.

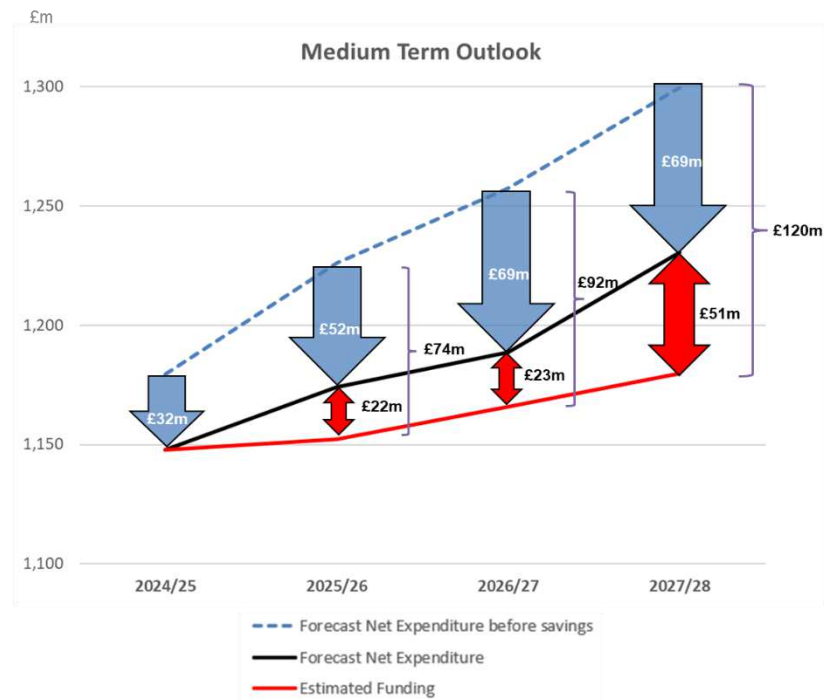
- 7.10 The uncertain funding position makes it more complicated to plan for the long-term. We expect to receive £308m of specific government grants in 2024/25 excluding grants passported to schools. These grants are only guaranteed to 31 March 2025. Without certainty of multi-year agreements, we need to plan on a broad range of funding assumptions.
- 7.11 Allocations for the social care grant were also confirmed. The Council will receive an extra £15.6m compared to the 2023/24 allocation. Combined with the yield from the adult social care precept (£16.1m), funding for social care in 2024/25 has increased by £31.7m. This has enabled the Council's increased investment in social care given the pressures faced, where the combined Adult's and Children's Social Care net expenditure budgets have increased by £52m to £613m and notable investment of £23.3m to the Adults Investment reserve to support work on business plan delivery and market strategy development and implementation.

### **Other**

- 7.12 We rely on a significant amount of income from fees and charges, budgeted at £152m in 2024/25, an increase of £19m from 2023/24. 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.

## **8 Financial Strategy**

- 8.1 This report proposes a balanced budget for 2024/25. There is reliance on one-off savings and technical adjustments of over £7m to close the budget gap, resulting in a structural deficit of £7m or 0.6% which will need to be permanently resolved in future years. It is the opinion of the S151 Officer that whilst this is an acceptable level of risk, it will need to be appropriately managed through the 2025/26 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 £22m in 2025/26 rising to £51m by 2027/28, before further tax rises. The outlook for the authority is set out below, however this mid-range scenario will change given the context of no government funding certainty post 2024/25, uncertainty around cost of care reforms, a volatile macroeconomic environment and unforeseen events notably demand and price pressures.



- 8.3 The Council has a robust savings, income and efficiency programme which enables setting a balanced budget for 2024/25 with a further £37m of savings planned through to 2027/2028. In 2024, there will continue to be focus on additional savings and cost avoidance through the Council's "Whole Council Transformation" programme. This will include using technology and digitisation, and the redesign of services and different ways of working with partners. The Whole Council Transformation strategy was approved at Cabinet in December 2023 and sets an ambition to identify a total of £100m of savings.

## 9 Capital Programme and Treasury Management

- 9.1 The Council will 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 public assets, such as investment in a new railway station at Chelmsford's Beaulieu Park and the Chelmsford North-Eastern Bypass and Colchester/Tendring A120-A133 link road and rapid transit scheme, as well as highways maintenance and providing new school places. The capital programme also includes schemes to help 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 9.6% of the net budget in 2024/25, to 11% by 2027/28. There is inherent risk of cost escalation due to inflation and slippage, as well as higher borrowing costs should base rates rise or decline at a slower rate than the assumptions 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 2027/28 and to control levels of debt.

- 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). Recently government have launched a call for views in relation to exploring and developing additional capital flexibilities and a final consultation on changes to minimum revenue provision regulations and statutory guidance. Outcomes of these may impact our future capital investment programmes.
- 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 for 2023/24 – the strategy for 2024/25 is consistent with that applied in 2023/24. 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 93) 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 2024/25 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.

## **10 Dedicated Schools Grant (DSG)**

- 10.1 The DSG is part of the Council's budget and is made up of four 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 2024/25 increases by £97.7m; the Schools Block increases £31.9m, the High Needs Block increases £12.7m, the Early Years Block increases £55.8m and the Central School Services Block increases £328,000.
- 10.3 This includes the Mainstream Schools Additional grant that was announced in the Autumn statement 2022 and the Early Years Supplementary Grant announced in the 2023 Spring Budget which have now been baselined in the DSG allocations for 2024/25.
- 10.4 The increase in funding will keep the High Needs Block with a surplus balance for 2024/25, however the demand for Education, Health and Care Plans continues to increase cost pressures which is placing significant risk on the block. It is currently forecast that the High Needs Block will fall into deficit in 2025/26. Given the volatility and complexity of need and should funding from central government continue not to keep pace with spend, there is a real risk that the deficit could arise earlier. It should also be noted that the statutory override for the DSG finishes 31 March 2026 and so from that point on DSG deficits will no longer be separated from the authority's wider accounts. At this point we are not making any provision in reserves for the potential medium to long-term implications.
- 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 2024/25. Should the increase in funding in future years not be sufficient the Council will request a transfer from the Schools Block.
- 10.6 It should be noted that the increased demand for special educational needs and disabilities also impacts on Non DSG services, namely, Education Psychologists, Home to School Transport, Special Education Operation Teams and Transitions.

## **11 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 for business cases to change the way services are provided and achieve 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 £213m.
  - **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). These total £286m.
- Over the next four years the Council is anticipating that it will draw down from unrestricted reserves for investment in Whole Council Transformation and developing strategic priorities in line with the ambition of the Everyone's Essex plan.
- 11.4 During 2024/25, £115m is expected to be drawn down from unrestricted reserves – a significant proportion of this (£24m) is 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 (£25m) and Technology and Digitisation Reserve (£18m) to finance investment in innovation and ongoing change across the Council.
- 11.5 Within the budget, plans are in place for net contributions of £81m to reserves in 2024/25. The largest contributions are to the Adults Investment Reserve (£23m), Transformation Reserve (£19m), Technology and Digitisation Reserve (£14m) and Everyone's Essex Reserve (£13m).
- 11.6 By 2027/28 it is anticipated that the balance of unrestricted reserves will have reduced to £188m (a reduction of £98m or 34%). The reduction mainly relates to the Transformation Reserve (£46m) to meet costs associated with the Whole Council Transformation programme, and the Everyone's Essex Reserve (£34m) as it is utilised to fund strategic priorities.
- 11.7 Whilst the level of unrestricted reserves may be enough to cover the funding gaps in the medium-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. It should also be noted that each of the reserves we hold is to meet specific costs or mitigate specific risks – such a significant call on reserves to fund the gap would be a risk to the financial sustainability of the Council.

- 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 22 days.

## **12 Risks**

- 12.1 There are several risks associated with the budget:
- 12.2 Ongoing inflation risk and the emergence of new burdens could contribute to the non-delivery of savings in 2024/25 with a knock-on impact in 2025/26. 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, 56% (£17.8m) have a high level of confidence, with 42% (£13.5m) medium risk and 2% (£455,000) of savings have a high level of delivery risk. This is a higher level of delivery confidence to that at this point last year.
- 12.3 The one-year provisional local government financial settlement for 2024/25 does not provide any information on funding allocations from 2025/26 onwards. Additionally, there is no confirmation of whether the Social Care grant, Services grant, and other grants announced in the provisional settlement will continue beyond 2024/25. If these grants were to be discontinued, or if the Council's allocation were to reduce, this would have a considerable adverse impact on the Council's funding position.
- 12.4 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.
- 12.5 Pressures in the Adult Social Care market have continued to increase steadily and are 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 7.11, the funding made available remains lower than the required growth in the resources for Adult Social Care between 2023/24 and 2024/25 (£36m). 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.

- 12.6 This year as set out in our regular financial reporting to Cabinet, we have seen significant cost pressures emerge across support to younger people, including Children's Social Care and Home to School Transport. We are seeing increases in demand, however significant cost pressure is as a result of increasing prices far in excess of our original assumptions, particularly in social care, where there are issues with market sufficiency. These are issues being seen nationally, and the proposed budget for 2024/25 in these two areas will grow by £40m, however if we continue to see unprecedented growth beyond our latest forecast this will create a risk to the 2024/25 budget.
- 12.7 Ultimately 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 the UK may fall into a recession in the new year. Allied with the ongoing cost of living crisis, despite existing government support, it will likely put residents and local businesses 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 National Non-Domestic Rates (NNDR) reliefs end. Many have been extended until 1<sup>st</sup> April 2025, including the large discounts for retail, hospitality, and leisure sectors and the continued freezing of the small business rates multiplier. However, others have been discontinued, such as the decision to uplift the standard business rates multiplier by September 2023 CPI.
- 12.11 The decision to de-couple the small and standard multipliers has required many billing authorities to make urgent and quick changes to their internal financial systems. There is a risk that these urgent changes to both reliefs and processes

could impact on the accuracy of budget forecasts provided by the districts and increases the risk that these forecasts could change before the final deadline to submit NNDR returns to central government on the 31 January 2024.

Additionally, the extension of reliefs, particularly to the Retail, Hospitality, and Leisure sector, means we will not know the full impact of these rate freezes until 2025/26 onwards at the earliest. Many businesses would have received significantly discounted rates for five years and it is unclear whether businesses will be able to afford full payment when the reliefs end. More strain will be placed on billing authority collection teams and if overall collection rates fall, it will adversely impact our funding budgets.

- 12.12 Furthermore, although it is necessary to increase council tax by 4.99%, to ensure frontline services are appropriately funded and to achieve a balanced budget in 2024/25, the increase in council tax to be paid by residents does raise the risk that households may not be able to afford to pay their bills in future years. This might impact on the collection rate and the overall in-year collection of the council tax precept. While the billing authorities will be required to pay a precept to ECC in 2024/25, based on the budget set before the statutory deadline, any adverse impact to the collection rate in 2024/25 will reduce collection fund balances in 2025/26. There are various schemes available to residents with low-incomes or are struggling financially, such as the Hardship Fund and Local Council Tax Support schemes, however this risk will still need to be closely monitored throughout 2024/25 to determine if collection rates remain resilient.
- 12.13 No centralised council tax support packages have been announced by central government to date for the 2024/25 financial year. As there remains continued pressure on local households, driven by the cost of living crisis, high interest rates, and the ongoing economic downturn, there is a risk that households will continue to face financial hardships and be at risk of not paying their council tax bills. The Hardship Fund remains in place via the Council Tax Sharing Agreement in 2024/25, however, if a large number of households cannot afford to pay their bills, this will also have an adverse impact of local tax collection and ECC's available funding over the medium-term. While this has not yet impacted on funding budgets for 2024/25, we have seen a slight reduction to the forecast council tax collection rate in 2023/24, and therefore continuation of this economic challenge would increase this risk.
- 12.14 The rate of inflation continues to fall (latest CPI of 3.9%, November 2023), however, is not forecast to fall to the Bank of England's (BoE) 2% target until 2025. The Council has based its cost assumptions over the medium-term on the BoE's inflation projections, and therefore if high inflation continues for longer than expected, this will create financial pressure on the cost of delivering services and paying the Council's employees.
- 12.15 Further potential increases, or a reduction slower than currently forecasted to the BoE'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.

- 12.16 The 2024/25 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 2024. These funding sources account for 91% of our total funding budgets. Central government has announced several changes to the business rate system, due to come into effect in 2024/25. 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.
- 12.17 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 2024/25 is £152m.

### **13 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 2022/23 presented to the Audit, Standards and Governance Committee and Council. The self-assessment concluded all 68 areas were fully met, however a



three point action plan is underway to support continuous improvement in delivering against the Financial Management Code.

- 13.4 The council's internal audit service was externally assessed during 2023/24 and achieved the highest assessment possible score of 'generally compliant'.
- 13.5 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.