

**AGENDA ITEM 8**

Report to Cabinet	Forward Plan reference number FP/333/12/15
Date of meeting : 26 th January 2016	County Divisions affected by the decision: <i>All divisions</i>
Title of report: REVENUE AND CAPITAL BUDGETS 2016/17 AND MEDIUM TERM RESOURCE STRATEGY	
Report by Cllr John Spence, Cabinet Member for Finance	
Responsible Director: Margaret Lee, Executive Director for Corporate and Customer Services	
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1 Purpose of the Report

- 1.1 The report presents information to enable the Cabinet to recommend the revenue budget for 2016/17 and the capital programme for 2016/17 to 2018/19 to Full Council in February. Please note that the capital programme for 2017/18 and 2018/19 is our current view.
- 1.2 The report asks Cabinet to note the funding sources for 2016/17; the revenue budget for each portfolio; the proposal in respect of the council tax rate for 2016/17 and the capital programme for 2016/17, and to approve the related recommendations set out below in section 2.
- 1.3 The report asks the Cabinet to note the Medium Term Resourcing Strategy (MTRS) from 2017/18 to 2018/19, which is informed by the best information available regarding future funding and demand, whilst noting the risks and mitigations approach as outlined in the report.
- 1.4 Cabinet is asked to note that whilst the Council is able to present a balanced budget for 2016/17, this does assume full delivery of savings and some utilisation of reserves and there is not yet a balanced position for 2017/18 and 2018/19.

2 Decision Areas and Recommendations

Revenue and Capital Budget: the Cabinet are requested to make the following recommendation to Full Council for approval:

- 2.4 The net revenue budget requirement to be set at **£861.0 million(m)** for 2016/17 – Appendix A (page 15)
- 2.5 The net cost of services to be set at **£927.5m** for 2016/17 – Appendix A (page 15).
- 2.6 The total council tax requirement be set at **£570.2m** for 2016/17 – Appendix A (page 15).
- 2.7 That council tax be increased by 1.99% and a 2% social care precept be levied, therefore the Essex County Council element of the council tax for charge for a Band D property in 2016/17 will be **£1,130.13**. A full list of bands is as follows:

Council Tax Band	2015/16 £	2016/17 £
Band A	724.50	753.42
Band B	845.25	878.99
Band C	966.00	1,004.56
Band D	1,086.75	1,130.13
Band E	1,328.25	1,381.27
Band F	1,569.75	1,632.41
Band G	1,811.25	1,883.55
Band H	2,173.50	2,260.26

- 2.8 That a schedule be presented to Full Council setting out the council tax rate for each category of dwelling and the precepts on each of the council tax billing authorities for 2016/17, together with the final tax base.
- 2.9 Agree to the proposed total schools budget of **£539.2m** for 2016/17 as set out on page 12 of Appendix A, which will be funded by the Dedicated Schools Grant.
- 2.10 That the underlying balance on the General Balance be set at **£60.4m** at as at 1 April 2016 after the proposed drawdown of **£19.4m** as prescribed in Appendix A (page 61).

- 2.11 That the capital payments guideline be set at **£250.5m** for 2016/17 and that the Executive Director for Corporate and Customer Services, in consultation with the Cabinet Member for Finance, be authorised to make adjustments to the phasing of payments between years (should that be necessary) as the capital programme is finalised, and to report any impact on the Prudential Indicators at the subsequent quarterly review to Cabinet in July 2016.

Cabinet are asked to agree the following:

- 2.12 Agree that the Cabinet Member for Finance, in consultation with the Executive Director for Corporate and Customer Services, may make any necessary adjustments to the figures to be submitted to Full Council upon receipt of the final tax base and forecast business rates receipts for 2016/17 to be notified to the Council by the respective billing authorities (due by 31 January), the final capital grant in respect of education from the Department for Education (DfE) due in mid-January, and the final settlement from government due 3rd February 2016.
- 2.13 That the Executive Director for Corporate and Customer Services (section 151 officer) statement on the robustness of the estimates and reserves be noted (section 3).

Prudential Indicators, Treasury Management Strategy and Minimum Revenue Provision for Debt Repayment Policy: the Cabinet are requested to make the following recommendation to Full Council for approval:

- 2.14 Approval of the 2016/17 - 2018/19 Prudential Indicators and limits, together with updated limits for 2016/17 as set out in Appendix B.
- 2.15 Approval of the Treasury Management Strategy for 2016/17 as set out in Appendix B.
- 2.16 Approval of the policy for making a prudent level of revenue provision for the repayment of debt (the Minimum Revenue Provision policy as set out in Appendix B).

Pay policy Statement - the Cabinet are requested to make the following recommendation to Full Council for approval:

- 2.17 The Pay policy statement for 2016/17 as set out in Appendix C.

For Cabinet to note:

- 2.18 That the report outlines the medium term (2017/18 – 2018/19) revenue issues facing the Council (Appendix A – page 5), highlighting the funding sources and implications for the medium term. The position is based on the best intelligence available today including future funding, price rises and demand; but there is inherent uncertainty given the changes in national and local circumstances.
- 2.19 That whilst there is a balanced budget for 2016/17, this is not yet the case for 2017/18 and 2018/19. Further savings will need to be secured in the medium term and a focus on outcomes based commissioning.
- 2.20 The draft equivalent Band D tax base for the purpose of determining the council tax charge is 504,545 properties.
- 2.21 The findings of the Equality Impact Assessment (EIA) carried out are included at Appendix D of this report.
- 2.22 The Council's Financial Regulations set out the policies and the framework for managing the financial affairs. They seek to ensure that the Council conducts its affairs in a way that complies with specific statutory provision, generally accepted accounting principles and professional good practice. In addition, the Chief Finance Officer authorises officers to make day to day decisions in accordance with and up to the limits set out in a scheme of delegation for financial management which implements Financial Regulations.

3 Statement of the Executive Director for Corporate and Customer Services (s151 Officer)

- 3.1 The Council is required to set a balanced budget and in considering the budget the Council must have regard to the advice of its Chief Finance Officer appointed under section 151 of the Local Government Act 1972. At Essex County Council, the Chief Finance Officer is Margaret Lee, Executive Director for Corporate and Customer Services.
- 3.2 Under section 25 of the Local Government Act 2003 the Chief Finance Officer is required to report to the authority on the robustness of the estimates. The following paragraphs therefore provide a commentary on the robustness of the budget and the reserves in place to support the Council.
- 3.3 The budget is to be set at a time of continuing and increasing austerity and significant reductions in central government funding. The Council faces a **33%** reduction in central government support, when compared to the current year. The Council also faced significant pressures from the implementation of the National Living Wage, care market pressures and increasing demand for our

services, most notably, but not exclusively, social care. Public expectation, in particular relating to our Highways service is also increasing.

- 3.4 The Government has announced four year settlements, which will provide some certainty over government funding in future years.
- 3.5 Central Government have recognised the increasing social care pressures, by allowing local authorities with social care responsibilities, the ability to increase Council Tax by an additional **2%**, through the introduction of the social care precept, to specifically fund social care costs. However, the additional potential sum to be derived from this source amounts to **£11m**, and is not sufficient to meet the pressures arising from inflation (including National Living Wage) and demographic growth which are estimated to cost in excess of **£40m** for social care.
- 3.6 For the past 5 years, this Council has frozen council tax at the 2010/11 level. In light of the significant pressures, it has not been possible to continue with this freeze, and it is proposed that Council Tax is increased by **1.99%**, with a further **2%** social care precept being levied generating total additional income from these sources of **£22m**.
- 3.7 Even with the planned increases in council tax and introduction of the social care precept, it will still be very challenging to continue with services as they are currently provided. By way of explanation, the 2016/17 budget includes a **£57m** reduction in central government grant, total service pressures of **£44m** and inflationary pressure of **£21m**. The maximum council tax increase of **3.99%** will only offset this pressure by **£22m**. For future years, this position only worsens. The council must therefore continue to explore different ways of working with its partners, local communities and the voluntary sector to ensure essential services can be provided within significantly reducing funding envelopes.
- 3.8 The Council has also indicated within the budget proposal, an aspiration to invest considerable sums through the capital programme over the next three years. This will deliver a range of schemes to enhance, maintain and deliver new assets, some of which will help to deliver revenue savings. The ability to turn this aspiration into a long term programme will be dependent on achievement of savings, generation of income and maximising funding from a range of sources. Without this, the implied borrowing costs of the capital programme will be unaffordable, and should they be incurred, they will generate on-going and unavoidable commitments which will provide even more challenge to delivery of what are already very difficult budgets.
- 3.9 There are a number of risks associated with the budget, the most notable are the assumed full delivery of savings, the management of social care demand and the exact implications of our new burdens.

- 3.10 Reserves play an increasingly important part in the financial strategy of the authority, and much has been written about them in local and national media. A substantial amount of the Council's reserves are 'restricted use funds' in that they are ring-fenced very specifically to long term contractual commitments such as PFI schemes, or they are partnership funds, and not available to support the spend of the Council.
- 3.11 Excluding these funds, the remaining provide a cushion against the significant risks the Council faces as outlined earlier, 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. 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.
- 3.12 In building the budget, the Council has considered the risks inherent within it and has a number of processes embedded within its day to day working to minimise, and manage those risks, including:
- Promoting a robust approach to financial planning with functions.
 - Use of performance reporting and balanced scorecards to act as an early warning system.
 - Regular reporting to Members and senior officers of the projected outturn, and savings plans, including outlining remedial action where appropriate.
 - The operation of a risk management approach as set out in the Council's Risk Management Policy.
 - The presence of the Council's internal control framework, including the Financial Regulations and Schemes of Delegation for Financial Management which provides the framework for delegated budget management.
 - The operation of the internal audit function and its role in assessing controls and processes to highlight critical or major weaknesses and also advise on best practice.
- 3.13 However, it has to be recognised that these steps will not serve to eliminate risk entirely, especially for those that come from external sources. There are further measures that can be taken to diminish the overall financial effect of these risks
- Slowing down or stopping spending or increasing income elsewhere in the organisation. The greater the extent that this is possible, the lower the overall impact of risks.

- The extent to which it is possible to move funds around the organisation, and so utilise savings in one area against pressure in another.
 - The level of the Council's emergency contingency, which is set at **£4m**.
 - The underlying level of general reserves, which is set at **£60.4m**.
- 3.14 This situation is very serious. It will take radical reform of services and strong leadership to deliver the savings required to balance future budgets
- 3.15 Whilst a balanced budget for 2016/17 is presented here, it does include high levels of risk in terms of delivery of the programme of savings. Furthermore, the projections for future years indicate a gap between the Council's expected funding streams and the Council's expenditure. It is therefore essential that the Council continues with its transformation programme to identify further savings opportunities to ensure future balanced budgets are able to be set.
- 3.16 Taking all of the above into account, it is the view of the Executive Director for Corporate and Customer Services that the revenue budget and capital programme for 2016/17, and the arrangements for managing and monitoring the budget are deliverable, but the level of risk within is significant.

4 Relevance to the Council's Corporate Plan and Strategic Plans

- 4.1 The budget is a financial representation of the organisation's activity. Financial constraints will, therefore, inevitably act as a limit to the activities that can be undertaken.
- 4.2 The Council is progressing well on its transformation journey on the way to becoming a commissioning led, outcomes focussed organisation. The latest Corporate Outcomes Framework provides the strategic direction and defines the measures with which the Council will gauge its progress against these outcomes.
- 4.3 This 2016/17 budget is built using the foundations of sound financial management and improved ways of working, with many of the efficiencies already recognised in the budget. Over time through 2016/17 and beyond the financial strategy will become even more aligned to the new outcomes framework.

5 Internal and External Consultation

- 5.1 As part of the preparation for the budget, all Executive Directors and Directors have been consulted.

- 5.2 In addition, budget consultation meetings are held with representatives from the unions and from the business community.
- 5.3 This report will also be reviewed by the Corporate Scrutiny Committee prior to final presentation of the budget to Council on 9 February 2016.

6 Legal Implications (Monitoring Officer)

- 6.1 In each financial year the Council must make its budget calculation in accordance with sections 42A and 42B of the Local Government Finance Act 1992. In particular, it must calculate the aggregate of:
- The expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year
 - Such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year
 - The financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure
 - Such financial reserves as are sufficient to meet so much of the amount estimated by the authority to be a revenue account deficit for any earlier financial year as has not already been provided for.
- 6.2 Those calculations are then used to determine the council tax requirement for the year.
- 6.3 The Council is required to set a balanced budget and in considering the budget the Council must have regard to the advice of its Chief Finance Officer appointed under section 151 of the Local Government Act 1972. At Essex County Council, the Chief Finance Officer is Margaret Lee, Executive Director for Corporate and Customer Services.
- 6.4 The Council must issue any precept or precepts in accordance with section 40 of the Local Government Finance Act 1992. The section prescribes what must be included in the issue of the precept. It must be issued before 1st March in the financial year preceding that for which it is issued, but is not invalid merely because it is issued on or after that date.
- 6.5 Under section 25 of the Local Government Act 2003, the Chief Financial Officer is required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These

are the estimates which the Cabinet is required to determine and submit to Full Council and are contained within this report. The Chief Finance Officer is also required to report on the level of reserves.

- 6.6 In deciding its Capital Programme for the year, the Council should have regard to the “Prudential Code” established in the Local Government Act 2003. This is addressed in the report.
- 6.7 The budget makes provision on the basis that a number of changes to council services which are under consideration may be made. The budget does not itself authorise any changes to services and does not assume that changes will be made. Any changes to service will need to be the subject of appropriate consideration by the Cabinet Member or the Cabinet following, where appropriate, consultation and a full report setting out options for change, the impact of the proposed changes on service users, including in particular the impact on different equality groups. Where a decision is made not to implement any changes then budgetary adjustments will need to be made.
- 6.8 The setting of the budget is a function reserved to Full Council but the Cabinet are required to consider the recommendations it wishes to make to Full Council on the various calculations the authority is required to make. Once the budget is agreed by Full Council, the Cabinet cannot make any decisions which conflict with that budget, although variations and in year changes may be made in accordance with the Council’s Financial regulations which have been adopted by the Council. Similarly, any decision made by the Cabinet or by an officer exercising executive functions must be made in accordance with the policies, plans and strategies agreed by Full Council, including the Council’s Corporate Plan, ‘A Vision for Essex’ and the Corporate Outcomes Framework.
- 6.9 Section 106 of the Local Government Finance Act 1992 restricts any member of the Council from voting on the budget or council tax requirement if they owe any amount of council tax to any local authority which has been outstanding for more than two months. If such a member attends a meeting at which the council tax requirement is to be set they must declare this fact and they cannot vote. It is an offence to vote or to fail to make this declaration.
- 6.10 Section 52ZB of the Local Government Finance Act 1992 requires the Council, when setting Council Tax, to determine whether or not the increase is ‘excessive’. An increase is excessive unless it is within parameters determined by the Secretary of State. If an increase is ‘excessive’ it can only be implemented if supported by a referendum. In previous years any increase of 2% or more has been defined by the then Secretary of State as ‘excessive’.
- 6.11 The ‘social care precept’ is proposed to be achieved by allowing authorities to increase council tax by a further 2%, making a total of 4%. There is no legal requirement for the money raised to be used for adult social care services, but

the Secretary of State has indicated that he will ask local authorities how they have spent the money. If an authority is unable to demonstrate usage for social care purposes he may restrict that authority's ability to raise council tax in future years. The final decision on what is an 'excessive' increase for 2016/17 has not yet been made.

7 Staffing and Other Resource Implications

- 7.1 An element of reorganisation and reshaping will be required to support efficiency gains in some operational areas. HR implications which may arise as a result of operational plans flowing from this budget will be addressed under their specific implementation plans.

8 Equality Impact Assessment

- 8.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when ECC makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
 - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 8.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. In addition, marital status is a relevant protected characteristic for 8.1(a).
- 8.3 The equality implications have been assessed as part of the budget setting process as detailed in Appendix D. Equality impact assessments will be carried out as part of individual schemes being considered to implement the budget.

9. List of Appendices

Appendix A – Revenue budget 2016/17 and Capital Programme 2016/17

Appendix B – Treasury Management Strategy

Appendix C - Pay policy statement

Appendix D – Equality impact Assessment