**Forward Plan Reference Number:** FP/453/03/16

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| **Report title:** Revenue and Capital Budgets 2017/18, and Medium Term Resource Strategy | |
| **Report author:** Margaret Lee, Executive Director for Corporate and Customer Services and section 151 Officer | |
| **Date:** 24 January 2017 | **For:** Decision |
| **Enquiries to:** Margaret Lee, Executive Director for Corporate and Customer Services | |
| **County Divisions affected:** All Essex | |

## 1 Purpose of the Report

1.1 The report presents information to enable the Cabinet to recommend the revenue budget for 2017/18 and the capital programme for 2017/18 to Full Council in February.

1.2 The report asks Cabinet to note the funding sources for 2017/18; the revenue budget for each portfolio; the proposal in respect of the council tax rate for 2017/18 and the capital programme for 2017/18, and to approve the related recommendations set out below in section 2.

1.3 The report asks the Cabinet to note the Medium Term Resource Strategy (MTRS) from 2018/19 to 2019/20, 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 2017/18, this does assume full delivery of savings and there is not yet a balanced position for 2018/19 and 2019/20.

## 2 Decision Areas and Recommendations

**Revenue and Capital Budget: Cabinet are asked to make the following recommendation to Full Council:**

2.1 The net revenue budget requirement to be set at **£851.2 million (m)** (net cost of services less general government grants) for 2017/18 – Appendix A (page 16)

2.2 The net cost of services to be set at **£911.2m** for 2017/18 – Appendix A (page 16).

2.3 The total council tax funding requirement be set at **£597.5m** for 2017/18 – Appendix A (page 16).

2.4 That a 3% social care precept be levied but with no further changes to council tax, therefore the Essex County Council element of the council tax for charge for a Band D property in 2017/18 will be **£1,163.70.** A full list of bands is as follows:

| Council Tax Band | 2016/17 £ | 2017/18 £ |
|---|---|---|
| **Band A** | 753.42 | 775.80 |
| **Band B** | 878.99 | 905.10 |
| **Band C** | 1,004.56 | 1,034.40 |
| **Band D** | **1,130.13** | **1,163.70** |
| **Band E** | 1,381.27 | 1,422.30 |
| **Band F** | 1,632.41 | 1,680.90 |
| **Band G** | 1,883.55 | 1,939.50 |
| **Band H** | 2,260.26 | 2,327.40 |

2.5 Agree to the proposed total schools budget of **£545.9m** for 2017/18 as set out on page 13 of Appendix A, which will be funded by the Dedicated Schools Grant.

2.6 That the underlying balance on the General Balance be set at **£59.2m** at as at 1 April 2017 (Appendix A, page 66).

2.7 That the capital payments guideline be set at **£263.4m** for 2017/18 and that the Executive Director for Corporate and Customer Services, in consultation with the Cabinet Member for Finance, Commercial, Traded Services, Housing and Planning 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 2017. Any requests to change prudential borrowing would be brought back before full council.

2.8 Agree a modest change to the fees and charges policy whereby default annual price increases will be set at the movement in the Retail Prices Index (all items), as at September of the preceding year where permissible, rather than the Consumer Prices Index, as currently stated in the policy (approved in November 2014).

**Cabinet are asked to agree the following:**

2.9 Agree that the Cabinet Member for Finance, Commercial, Traded Services, Housing and Planning, in consultation with the Executive Director for Corporate and Customer Services, may make adjustments to the recommendations to Full Council upon receipt of:

(a) the final tax base and forecast business rates receipts for 2017/18 from the billing authorities (due by 31st January 2017)
(b) the final capital grant in respect of education from the Department for Education (DfE) expected March 2017; and
(c) the final settlement from Government expected early February 2017.

2.10 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 recommendations to Full Council:**

2.11 Approval of the 2017/18 - 2019/20 Prudential Indicators and limits, together with updated limits for 2016/17 as set out in Appendix B.

2.12 Approval of the Treasury Management Strategy for 2017/18 as set out in Appendix B.

2.13 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:**

2.14 Recommend that the Council adopts the Pay Policy Statement for 2017/18 as set out in Appendix C.

**For Cabinet to note:**

2.15 Note the medium term (2018/19 – 2019/20) revenue issues facing the Council as set out in the report (Appendix A – page 5), highlighting the funding sources and implications. 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.

2.16 Note that the recommendations in this report present a balanced budget for 2017/18. The Council's plans for 2018/19 and 2019/20 are not sufficiently firm as to allow for a balanced budget to be set. Further opportunities for improving income and funding, plus greater efficiencies will need to be secured in the medium term which will be achieved by a focus on outcomes based commissioning.

2.17 Note that the above figures are based on a Band D tax base of **513,471** properties (see Appendix A page 16)

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

3.1 The Council is required to set a balanced budget every year 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 against a backdrop of the seventh year of austerity and significant reductions in Central Government funding, and increasing demand for social care services which has attracted much attention nationally. The Council faces a **37%** reduction in Central Government revenue support grant, when compared to the current year, and this is on top of **27%** in the previous year. The Council also continues to face significant financial pressures from the implementation of the National Living Wage, and increasing demand for its services. Public expectation, in particular relating to the Highways service is also increasing.

3.4 As part of the Local Government Finance Settlement 2016/17, the Government announced the opportunity for Councils to 'sign up' to a four year settlement, thereby providing greater certainty over government funding streams. In order to accept the offer, an Efficiency Plan is required. The authority took up this offer, and the Efficiency Plan for 2016/17 to 2020/21 was approved by Council in October 2016.

3.5 In 2016/17 the Government agreed that local authorities with social care responsibilities were allowed to increase council tax by an additional **2%** if the money raised is spent on adult social care. This is referred to as the 'social care precept'. In the Provisional Finance Settlement for 2017/18 it was announced that social care authorities could increase the social care precept by **3%** for 2017/18 and 2018/19 provided that the total increase as a result of the precept by 2019/20 does not exceed **6%**. A **3%** increase will yield an estimated **£17m** in 2017/18, which whilst being a contribution to the financial pressures relating to social care, are not sufficient to meet the costs of inflation (including the cost of funding increases in the National Living Wage) and demographic growth which are estimated to cost **£47m** for this service alone.

3.6 For the 5 years to 2015/16, the Council froze council tax at the 2010/11 level. Following the significant reduction in funding and cost pressures during 2016/17, the difficult decision was made to increase Council Tax by **1.99%** together with a social care precept of **2%.** However with the additional flexibility offered by Government with the social care precept it is proposed that council tax will be frozen again in 2017.

3.7 The financial situation that the authority faces is still very challenging. The 2017/18 budget includes a **£39m** reduction in central government grant, inflationary pressure (including National Living Wage) of **£38m**, and net service pressures offset by additional income (**£29m**) results in a net pressure of **£106m.** For future years, these pressures are expected to continue. 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 with significantly reduced funding.

3.8 The Council has also indicated within the budget proposals, 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. Clearly if the Council has to borrow sums to pay for this investment, it will incur borrowing costs, which increase the pressure on the revenue budget. The ability to turn this aspiration into a long term programme will therefore be dependent on achievement of savings, generation of income and maximising funding from a range of sources. Without this, the indicated 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 budget proposals and the extent and management of social care demand.

3.10 The budget includes information provided by the District Councils on Council Tax and Business Rates income. There is less certainty on Business Rate income in 2017/18 due to the recent national rate revaluation, which normally occurs every 5 years and new appeals process. This may result in a change to the Council's funding. Final returns are due by 31st January 2017.

3.11 Reserves play an increasingly important part in the financial strategy of the Council, 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.

3.12 Excluding these funds, the remaining reserves 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 efficiencies. The continued provision of adequate reserves is essential. Without these, it may be necessary to take remedial urgent action in-year to mitigate unavoidable challenges that arise, which could lead to longer term consequences.

3.13 In building the budget, the Council has considered the risks inherent within it. The Council 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 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.

3.14 However, it has to be recognised that these steps will not serve to 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

- Slowing down or stopping spending or increasing income elsewhere in the organisation. The greater the extent that this is possible, the lower the potential overall impact of risks

- The extent to which it is possible to move funds around the organisation, and so use savings in one area against pressure in another

- The level of the Council's emergency contingency, which is set at **£4m** (or less than 0.5% of net expenditure)

- The underlying level of general reserves, which is set at **£59.2m** (or 24 days expenditure).

3.15 This situation is very challenging. The report refers to the continuing demand for services, inflation and reduction in Central Government funding. In addition, there is a projected overspend of **£7.7m** in the current year (2016/17) which must not only be funded, but could also have an on-going impact into 2017/18 and beyond.

3.16 It will therefore take radical reform of services and strong leadership to deliver the new sources of income and efficiencies required to balance future budgets. There will be an increasingly strong focus on digital transformation and commercialism to enable this.

3.17 Whilst a balanced budget for 2017/18 is presented here, it does include high levels of risk in terms of delivery of the budget proposals. 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 to identify further income and opportunities for efficiencies to ensure balanced budgets are able to be set in future.

3.18 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 2017/18, and the arrangements for managing and monitoring the budget are deliverable, but the level of risk within is significant.

## 4. Other Issues

4.1 The Council is required to produce an annual Pay Policy Statement for each financial year. The statement for 2017/18 (Appendix C) has been updated to reflect the restructure agreed by Cabinet on 18 October 2016, and a new grading and pay structure which will apply to layers 1 and 2 of the organisation.

4.2 The findings of the Equality Impact Assessment (EIA) carried out are included at Appendix D of this report.

4.3 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 Executive Director for Corporate and Customer Services (s151 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. The Financial Regulations have been revised and are elsewhere on the agenda for approval.

4.4 The Fees and Charges Policy sets out how the Council will charge for services. The policy applies subject to legal restrictions. The policy currently states that where possible, charges will be subject to annual inflation, using the forecast rate of increase in the Consumer Price Index (CPI) unless:

- This would mean that the service does not comply with the cost recovery policy.

- Market prices would suggest that is not sustainable or an alternative inflation measure can be demonstrated to be more appropriate

- This increase would not meet Corporate Objectives.

4.5 It is proposed that Cabinet amend the CPI policy and instead apply the Retail Price Index all items (RPI). This will be in line with the approach to budgeting for income, which is to use the annual change in the RPI as at the September before the commencement of the financial year. The exceptions as set out in paragraph 4.4 above will continue to apply. The Fees and Charges Policy is to be reviewed in early 2017 and there will be a full review of charges. If this recommendation is approved the Executive Director for Corporate and Customer Services will publish a revised version of the Fees and Charges Policy on the County Council's website.

4.6 In line with the approach taken by a number of other authorities, the Council has undertaken a review, in consultation with its External Auditor, of its policy for making annual Minimum Revenue Provision (or MRP) for the repayment of debt. As a consequence of this review, it is intended to vary the methodology for determining MRP on relevant classes of debt, as set out in Appendix B – Treasury Management.

## 5. Relevance to the Council's Corporate Plan and Strategic Plans

5.1 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.

5.2 The Vision for Greater Essex is currently being refreshed and is out with partners for consultation. Work is underway on a new Organisation Strategy.

5.3 Over time beyond 2017/18 the financial strategy will become even more aligned to the Vision and the Organisation Strategy, as business plans are developed to implement the strategy.

## 6. Internal and External Consultation

6.1 All Executive Directors and Directors have been involved in the preparation of the budget.

6.2 Through budget consultation meetings the Council engage with representatives from the unions and from the business community.

6.3 This report will also be reviewed by the Corporate Scrutiny Committee prior to final presentation of the budget to Council on 14 February 2017.

## 7. Legal Implications (Monitoring Officer)

7.1 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.

7.2 Those calculations are then used to determine the council tax requirement for the year.

7.3 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.

7.4 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 1 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.

7.5 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.

7.6 In deciding its Capital Programme for the year, the Council must have regard to the 'Prudential Code' established in the Local Government Act 2003. This is addressed in the report.

7.7 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 services 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.

7.8 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 virements 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.

7.9 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.

7.10 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 (excluding social care precept) has been defined by the then Secretary of State as 'excessive'.

7.11 The social care precept is proposed to be achieved by allowing authorities to increase council tax by a further 3%. 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 2017/18 has not yet been made, and a decision is not expected until early February 2017. If the Council sets council tax before the finance settlement then it would need to reconvene to determine whether or not the increase is excessive.

## 8. Staffing and Other Resource Implications

8.1 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.

## 9. Equality Impact Assessment

9.1 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.

9.2 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).

9.3 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.

## 10. List of Appendices

**Appendix A – Revenue Budget 2017/18 and Capital Programme 2017/18**
**Appendix B – Treasury Management Strategy**
**Appendix C – Pay Policy Statement**
**Appendix D – Equality Impact Assessment**