

<b>Report title:</b> 2022/23 Financial Overview as at the First Quarter (Part 1) and Budget Setting Process (Part 2)	
<b>Report to:</b> Corporate Policy and Scrutiny Committee	
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<b>Date:</b> 22 September 2022	<b>For:</b> Consideration
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<b>County Divisions affected:</b> All Essex	

## **1. Purpose of report**

- 1.1 This item is to consider the 2022/23 First Quarter Financial report presented to Cabinet on 19<sup>th</sup> July, and an overview of the budget process for 2023/24, including how the budget is built, key risks being considered, and the uncertainty driving the medium term.

## **2 Background**

- 2.1 The Council presented its First Quarter Financial position for 2022/23 to July Cabinet. At this stage of the year there is a forecast over spend of £5.1m (0.5%), against a net revenue budget of £1.1bn. For the Capital Programme there is an under spend of £7.9m (2.7%) on the capital programme against a budget of £294m.
- 2.2 The process for setting the 2023/24 budget and the medium term resource strategy has been underway since the beginning of the financial year. Work will continue until the final budget for 2023/24 is presented to Cabinet in January, followed by Full Council in February.

## **3 Part 1 - 2022/23 First Quarter Report**

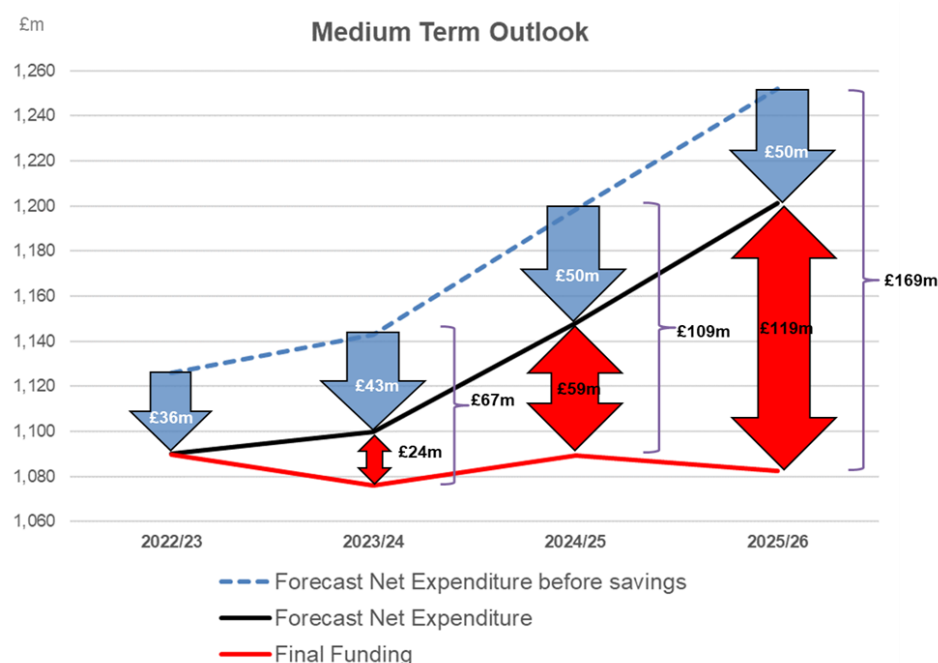
- 3.1 The Council finds itself in an economic environment of inflation quickly rising to a 40 year high. Since publication of the Cabinet report, inflation has reached 10.1%, which will potentially be sustained for an extended period of time. For context, when the budget for 2022/23 was set, inflation predictions were for a peak of 5.5%. Alongside this, we continue to face uncertain levels of demand for many of the services we deliver, in what are difficult circumstances. All of these factors will require careful monitoring and are likely to result in ongoing volatility of forecasting as we move through the year, which makes it difficult to produce an accurate forecast.

- 3.2 There is a full year forecast over spend of £5.1m (0.5% against a net budget of £1.1bn). The overall over spend position is driven by pressures within the Adult Social Care and Health portfolio, where there are significant over spends in Residential Care, Nursing Care and Reablement driven by demand which continues to be difficult to accurately predict, market capacity issues and potential non-delivery of savings, and within the Finance, Resources and Corporate Affairs RSSS portfolio, mainly due to the delays to property transformation savings, plus pressure on utilities budgets, given forecast market rates.
- 3.3 Within the forecast position, inflation pressures of £6.4m have been identified, impacting Transport providers and fuel costs, energy costs for street lighting and running the ECC estate, and Adult Social Care. As we progress through the year these pressures will likely increase, as we gain better insight on actual and potential inflation impacts through procurement activity and supplier interactions. The report includes recommendations to draw down £2.5m from the General Risk Reserve to fund pressures seen to date, which leaves capacity to fund further pressures as they develop through the remainder of the year.
- 3.4 Since publication of the First Quarter report, a further decision has been taken to drawdown £4.46m from the General Risk reserve to meet cost pressures on the Council's electricity budgets in 2022/23. This brings total reserves support for electricity in this year to £9.5m.
- 3.5 We continue to face the impact of Covid, on demand for our broad range of services, as well as with capacity of providers to deliver our requirements. We still face pressures, and continue to provide support to markets, particularly in Adult Social Care with staffing recruitment and retention. Within this report recommendations are included for £2.7m of drawdowns from the Covid Equalisation Reserve, and we expect further drawdowns throughout the year as ongoing pressures develop, or we see new waves of the pandemic that impact on the financial position.
- 3.6 The Capital Programme has a forecast under spend of £7.9m against a latest budget of £294m. After taking account of the budget change adjustments set out in the First Quarter report, there is a residual under spend of £1.7m. The budget change adjustments are summarised as follows:
- Slippage of £4m (£3.7m into 2023/24 and £324,000 into 2024/25)
  - Budget additions of £10.9m
  - Budget reductions of £17m
  - Advanced works of £663,000 (£4.8m to be advanced from 2024/25 of which £663,000 moves in to 2022/23, and £4.1m in to 2023/24)
- 3.7 The Council's approved treasury management strategy permits inter-authority loans. Given current developments within Local Government, there is rightly

increasing scrutiny of these. ECC currently has no inter-authority loans, and stopped undertaking these in 2020/21.

## 4 Part 2 - 2023/24 Budget Setting Process

- 4.1 Budget setting for 2023/24 and a refresh of the medium term resource strategy is currently underway. In February 2022, our medium term resource strategy set out a forecast budget gap of £24m for 2023/24, rising to £119m by 2025/26.



- 4.2 Scenario planning has been undertaken looking at the key assumptions that drive the budget, including inflation, demand, savings delivery and Council Tax and Business Rates variables. These are under frequent review and assessed based on our confidence and latest information available.
- 4.3 Given the current economic climate, there are a number of risks and challenges that we face in setting next year's budget. The 40-year high rate of inflation, and the uncertainty around future levels of inflation will impact contractual expenditure, including the surges in energy costs and food prices. In the Provisional Outturn report to Cabinet in July, inflation risk alone in 2022/23 was estimated in the region of £35m above that budgeted. There is also the impact of cost of living on our residents, given high levels of inflation, and the impact this may have on demand for services and tax collection rates (both for council tax and business rates). Alongside this there is still significant uncertainty on how Adult Social Care reforms set out by government will be funded.
- 4.4 As part of the presentation to the Committee we will set out the process of how we build the budget and the key elements that make up the budget,

particularly given the completion of the Corporate Systems project, and changes to how the budget is now built.

## **5 List of Appendices**

Appendix A – 2022/23 Financial Overview as at the First Quarter (FP/303/02/22)