Forward Plan Reference Number: FP/388/03/19

Report title: Organisation Plan and Budget 2020/21 – Part 1: Section 151 Officer Report	
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Date: 21 January 2019	**For:** Discussion
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County Divisions affected: 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 2020/21 revenue budget, as well as the Financial Strategy and the Capital and Treasury Management Strategy. The S151 Officer for the Council is the Executive Director for Finance and Technology.

2. Recommendations

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

3. Assurance Statement of the S151 Officer (Executive Director for Finance and Technology)

3.1 I have examined the budget proposals and I believe that whilst the spending and service delivery proposals are challenging, they are achievable given the political and management will to implement the changes.

3.2 The external auditors have concluded that for 2018/19, the Council has satisfactory arrangements for the securing Value for Money and use of resources.

3.3 The Council has a good track record on financial management and delivering savings. The external auditors are satisfied the Council has adequate arrangements for budget monitoring and taking mitigating actions to eliminate the impact of any over spends and undeliverable savings. It is on track to deliver its required savings in 2019/20. The external auditors also concluded that the medium-term resourcing strategy reflects known savings and cost pressures and the key assumptions are reasonable.

3.4 I believe the level of reserves are appropriate but require continual monitoring considering the risks and will continue to report quarterly to Cabinet on the reserve position.

3.5 The 2020/21 revenue budget and the capital programme are included elsewhere on the agenda. Whilst the budget shown is balanced, there remains a gap between our estimated spend and assumed funding for 2021/22 and onwards. The Council only has certainty of funding for 2020/21 and considerable uncertainty remains in the sector around the funding structures for local government beyond 2020/21; a multi-year settlement is expected from 2021/22. It is imperative the Council maintains focus on financial sustainability and produces a balanced budget over the medium term.

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 2003 Local Government Act.

4.2 The budget is a financial plan of the Organisation Strategy and forms part of the annual Organisation 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 Organisation Strategy.

4.3 This report concentrates on the draft 2020/21 revenue budget, level of reserves and capital programme as set out elsewhere on this agenda, but in addition it also considers key medium-term issues faced by the Council.

5. Financial Context

5.1 The Provisional Settlement from Central Government confirmed the announcements in the Autumn Spending Review. This included new monies for social care as well as continuation of existing social care grants, namely Winter Pressures and Social Care Support Grant, which equates to £10m for existing grants and an additional £23m of new monies. In addition to this, for the Dedicated Schools Grant (DSG), an additional £19.6m in respect of the High Needs Block was received, however there was a reduction of £1.2m to the Central School Services Block. There was only a one year funding announcement for DSG.

5.2 The Provisional Settlement also confirmed the continuation of Revenue Support Grant (RSG), which equates to £19m. The Council has seen its RSG significantly reduce from £232m in 2013/14 to £19m for next year, a reduction of £213m over 7 years. The medium-term strategy assumes that RSG will continue at this level, however there is no formal confirmation from government of funding beyond 2020/21.

5.3 The future of local government finance remains uncertain. The Government has committed to review Business Rates. It is also reviewing the allocation of funding across local authorities; this is known as the Fair Funding review, however there is no clarity on when these are now to be implemented.

5.4 The uncertain funding position makes it difficult to plan for the long term. In addition, like most local authorities, the Council is are also experiencing increasing demand for our services notably increasingly complex and expensive packages and transport for children's social care and higher demands across adult social care.

6. Revenue Budget

6.1 If it accepts the recommendations in the budget report, the Council plans to spend £1.9bn in 2020/21 (including schools). After income, this equates to a net expenditure budget of £990.2m, an increase of £50m, (5.4%) on 2019/20.

6.2 The 2020/21 budget includes inflationary pressures (including National Living Wage) of £23m, other service pressures totalling £64m (including £17m of additional change capacity to meet ongoing transformation of services and systems and £9m additional resources for Children's Social Care), and one off investment of £22m (including additional investment in our highways and in order to provide additional resilience against delivery risk). This is offset by additional funding of £51m resulting in a net pressure of £58m.

6.3 The budget assumes £58m of savings and increased income to balance the 2020/21 budget. These include contract efficiencies, back office savings through process efficiency, service redesign and use of technology, increasing income from fees and charges and commercial activity and development of our fostering service to increase the use of internal foster carers to minimise dependence on the external market.

7. Funding

7.1 In 2016/17 the Government agreed that local authorities with social care responsibilities could increase council tax if the money raised was spent on adult social care. This is referred to as the 'adult social care precept'. This precept has continued to be in place since 2016/17, and continues in 2020/21, which will allow social care authorities to increase the social care precept by a further 2% in 2020/21.

7.2 A 2% increase will yield £13m in 2020/21. This provides a contribution to the financial pressures in adult social care but does not cover the increased costs in this area which are estimated to cost £20m due to inflation (including the cost of funding increases in the National Living Wage which has risen from £8.21 to £8.72 per hour) and population growth.

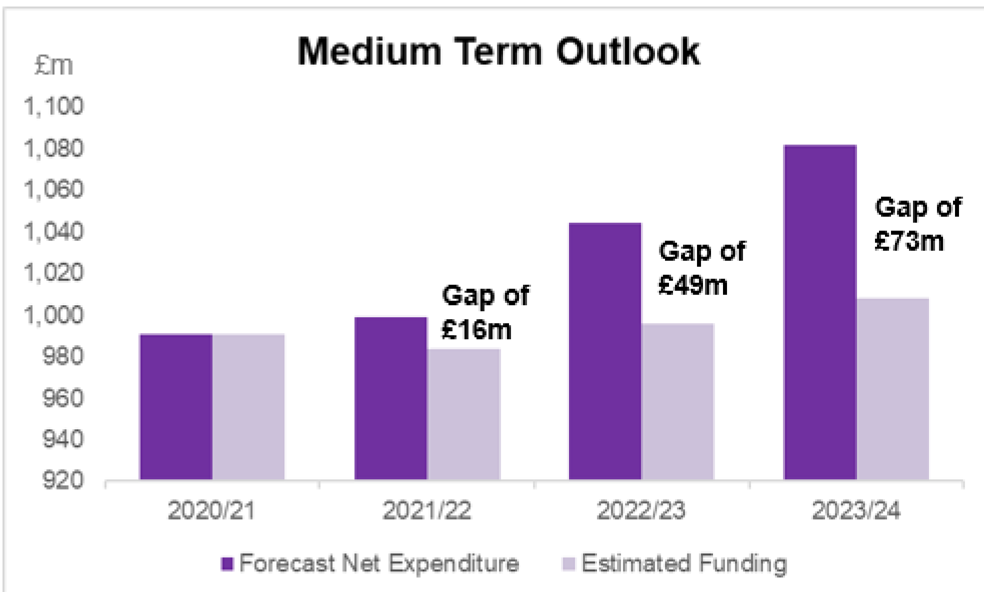
7.3 Government has set the Referendum cap for core Council Tax at 2%. The Council is proposing a 1.99**%** increase in core council tax (in addition to the 2% social care precept referred to above). The increases proposed will not only contribute additional funds for 2020/21 but will also provide an increase to the Council's base funding position going forward, which is critical given the continued uncertainty around funding for local government beyond the one-year 2020/21 horizon.

7.4 The 2020/21 budget incorporates £33m of additional money announced for social care, this was a continuation of £10m received in 2019/20, with an additional allocation of £23m. The Government have committed to the continuation of this additional £23m, which is a welcome source of funding in meeting the pressures within social care.

8. Financial Strategy

8.1 A balanced budget for 2020/21 is presented. The projections for future years indicate a gap between the Council's expected funding streams and the Council's expenditure.

8.2 The medium-term outlook for the authority is set out below, however this must be seen in the context of an uncertain funding horizon for local government from 2021/22:



8.3 It is imperative that the Council maintains focus on financial sustainability and continues to identify further income and opportunities for new efficiencies. The Council must continue to explore the redesign of services and different ways of working with its partners, local communities and the voluntary sector to ensure essential services can be provided with significantly reduced funding.

9. Capital Programme and Treasury Management

9.1 The Council has indicated, within the budget proposals, an aspiration to invest considerable sums through the capital programme over the next four years. The capital programme aspirations will deliver a range of schemes to maintain, enhance and deliver new assets, such as investment in Chelmsford's new Beaulieu Train Station and North East Bypass and Colchester/Tendring A120 and A133, as well as highways maintenance and providing new school places.

The capital programme also includes schemes to help to deliver revenue savings, such as the Essex Housing Programme to redevelop redundant Council property. To the extent that the Council must borrow to pay for this investment, it will incur borrowing costs, which must be funded from the revenue budget.

9.2 The revenue costs of borrowing to finance the capital programme will rise from 7.8% of the net budget in 2018/19, to an estimated 10.8% by 2023/24. In 2020/21, capital schemes which deliver a revenue saving greater than the associated borrowing costs amount to some 9% of the total programme. The Council's ability to deliver the future Capital Programme aspirations is therefore dependent on the achievement of savings, generation of income and maximisation of funding from a range of sources to fund the revenue borrowing costs.

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

9.4 The Prudential and Treasury Management Codes require the Council to produce a Capital and Treasury Management Strategy which explains how the Council takes capital expenditure, investment and treasury management decisions and how it takes account of stewardship, value for money, prudence, sustainability and affordability. The full strategy is shown in Appendix A, Annex 3. The Executive Director for Finance and Technology 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 Annexes 3A and 3B, show that the capital financing requirement, external borrowing levels and costs of borrowing are all on an upward trajectory. This reflects the substantial level of capital investment being undertaken by the Council. A focus of some of the capital programme is upon 'invest to save' initiatives and upon economic regeneration. Hence, the increases in borrowing, and the costs associated with this borrowing, may be partly mitigated by revenue savings and additional income generation (e.g. additional housing and businesses providing tax revenues).

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

9.8 The Council's approach to treasury management investment activities is set out in Appendix A (Annex 3 page 94) and includes the criteria for determining how and where funds will be invested to ensure that the principal sums are safeguarded from loss and that sufficient liquidity is maintained to ensure that funds are available when needed. The treasury management investment strategy proposed for 2020/21 is largely 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 commercial investment activities, including processes, and due diligence. It also defines the Council's risk appetite in respect of these, including proportionality in respect of overall resource.

9.12 All commercial 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 Schools Services. A significant proportion of this grant is passported directly through to and managed by schools themselves and is known as the Schools Block. The remaining three block; High Needs, Early Years and Central Schools are managed by the Council.

10.2 There is an increase in funding of £19.6m for the High Needs Block in 2020/21 however this is insufficient to recover the historic deficit that has arisen due to continued growth of pupils with Special Educational Needs and Disabilities (SEND), which is forecast at £3.6m on 31 March 2021. Assuming the Department for Education (DfE) continues to increase funding for the High Needs Block at a similar proportion as in 2020/21, it is anticipated that the High Needs Block will return to a balanced position by 2022/23. However, the Council has only a one-year confirmation of funding and therefore the outlook is very uncertain.

10.3 The DfE has stated that with the increase in funding to the High Needs Block that it expects local authorities to only request transfers from the Schools Block in exceptional circumstances. The Council has therefore made no request for a Schools Block transfer for 2020/21 on the assumption that funding will continue to increase in 2021/22 and 2022/23. Should the increase in funding in future years not be enough the Council will request a transfer from the Schools Block.

10.4 The DSG over spend is being funded temporarily from future years' DSG allocations, which is permitted by the terms of the grant. It should be noted that the Special Educational Needs and Disabilities increased demand also impacts other Non DSG services, namely Home to School transport and Transitions.

10.5 The recent SEND Organisation Design has reduced expenditure within the High Needs Block for 2020/21 due to the reorganisation of the Specialist Teachers Team. A review of funding for special schools is underway and will be followed by a review of funding for SEND bases attached to mainstream schools.

11. Reserves

11.1 Reserves play an important part in the financial strategy of the Council, and much has been written about them in local and national media.

11.2 They are an important part of risk management and resilience. 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.

11.3 The Third Quarter report, elsewhere on the agenda, requests approval to create three new reserves for Technology Solutions, Highways and Emergency, which will replace the current Emergency Contingency annual revenue budget of £4m. The purpose of the Technology Solutions reserve is to set aside funding to meet the future cost of replacing key corporate systems, including the social care case management system and the core financial and human resources systems. The Highways reserve is to set aside resources to meet the potential pressures on the highways network. The Emergency reserve will help deal with risk around market fragility, exit from the EU, capacity issues across social care, as well as general risks around volatility in demand or extreme weather conditions.

11.4 A substantial amount of the Council's reserves (£192m) are 'restricted use funds' in that they are ring-fenced very specifically to long term contractual commitments such as Private Finance Initiative (PFI) schemes, or they are partnership funds, and not available to support the spend of the Council. These reserves have the potential to manage specific risks in the areas they are allocated to, and so alleviate pressure on the remaining reserves and the budget, but they should not be considered available to support more general pressures facing the Council.

11.5 Excluding these specific funds, the remaining reserves (£74m) provide a cushion against the significant risks the Council faces as outlined above, and a source of transformation funding to change the way the Council provides services and achieves future efficiencies.

11.6 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 has stood at 6% since the 2017/18 budget in recognition of the level of risk associated with reductions in Revenue Support Grant and pressures the Authority faces. The general balance is set at £57m which is enough to fund the council's activities for 21 days.

11.7 During 2020/21, £44m is expected to be drawn down from reserves – principally from the Transformation Reserve to finance investment in business cases. It should be noted that there are plans included within the budget to contribute to the Transformation Reserve in 2020/21 and future years, to ensure there are enough funds available for continued investment in the transformation programme.

11.8 The 2020/21 budget includes some appropriations to reserves. These are proposed to reflect assessments of need or agreed strategies.

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

12. Risks

12.1 There are several risks associated with the budget. The key risks are set out in the following paragraphs.

12.2 The budget assumes full delivery of £58m budget proposals. Officers and members continue to work on delivery plans. 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, 5% of savings have a high level of delivery risk.

12.3 The extent and management of social care demand is a significant risk given that people are living longer, may have more care needs, and the Council is experiencing more complex cases within Children's services too. 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.

12.4 Winter weather may require greater intervention than originally planned. Therefore, it is important that we can provide additional resources at very short notice to ensure we can keep people moving around the county in periods of bad weather.

12.5 The longer-term funding position is uncertain due to the proposed changes to local government finance.

12.6 At the time of writing there is a commitment to leave the European Union on 31 January, this could have an impact on financial and workforce resources, but this is yet unknown.

12.7 The single greatest inflationary pressure in the budget is National Living Wage; there are assumptions made about the increase in rate 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 rate for 2020/21 is £8.72 and this may have a greater impact on the supply chain than the budget assumes.

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

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