

Forward Plan Reference Number: FP/696/05/20

Report title: Organisation Plan and Budget 2021/22 – Part 1: Section 151 Officer Report	
Report author: Nicole Wood, Executive Director for Finance and Technology	
Date: 19 January 2021	For: Discussion
Enquiries to: Nicole Wood, Executive Director for Finance and Technology	
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 2021/22 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, 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.
- 3.2 The Council has a good track record on financial management and delivering savings. The Council's external auditor recently concluded that adequate arrangements are in place for budget monitoring and taking mitigating actions to eliminate the impact of any over spends and undeliverable savings and that the Council is on track to deliver its required savings in 2020/21. The external auditor also concluded that the medium-term resourcing strategy reflects known savings and cost pressures and that key assumptions are reasonable and hence that the Council has adequate arrangements in place to remain financially sustainable in the medium term.
- 3.3 The level of reserves are appropriate but require continual monitoring given the risks and we will continue to report quarterly to Cabinet on the reserves position.
- 3.4 The 2021/22 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 2022/23 and

onwards. The Council only has certainty of funding for 2021/22 and considerable uncertainty remains in the sector around the funding structures for local government beyond 2021/22; a multi-year settlement is expected from 2022/23. 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 2021/22 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 COVID has resulted in exceptional patterns of spend and activity. During 2020/21 we expect to have incurred additional exceptional expenditure and lost income of circa £160m against our 2020/21 budget, an increase of 16% against our originally approved budget. Most of the costs has been met through additional exceptional grant to local authorities. For 2021/22 and beyond, it is difficult to precisely forecast the new demand patterns that will continue as the pandemic continues and we will need to closely monitor the underlying pent up demand that may not be visible during lockdown and new patterns of demand that will emerge as the pandemic ends.
- 5.2 Before the pandemic, the Council was already experiencing increasing demand for our services notably increasingly complex packages for children; increasing demand for home to school and special educational need transport; and higher demands across adult social care including adults with learning disabilities and older people. The pandemic will inevitably change demand and we will need to monitor and respond to those emerging patterns closely.
- 5.3 The Provisional Settlement from Central Government confirmed the announcements in the Spending Review. This included new monies for social care as well as further funding to support the COVID-19 pressures. In addition to this, for the Dedicated Schools Grant (DSG), an additional £18.7m in respect of the High Needs Block was received. There was only a one year funding announcement for DSG.

- 5.4 The Provisional Settlement also confirmed the continuation of Revenue Support Grant (RSG) of £19m. The Council has seen its RSG significantly reduce from £232m in 2013/14, a reduction of £213m over 6 years. The medium-term strategy assumes that RSG will continue at this level, however there is no formal confirmation from government of funding beyond 2021/22, so this presents an inherent uncertainty from 2022/23.
- 5.5 The future of local government finance remains uncertain. The Government has committed to review Business Rates. It has also committed to a review of the allocation of funding across local authorities; this is known as the Fair Funding review. However given delays as a result of the pandemic, there is no certainty as to when these are now to be implemented. However, there remains an overriding commitment to a multi-year settlement for local government from 2022/23.
- 5.6 The uncertain funding position makes it more complicated to plan for the long term. We expect to receive £166m of government grants in 2021/22, aside from grants passported to schools. These grants are only guaranteed to 31st March 2022. Without certainty of multi-year agreements we need to plan on a broad range of funding assumptions. Further, we rely on a significant amount of income for fees and charges, budgeted at £120m in 2021/22. During the pandemic inevitably a number of these charges were hit, and these have been covered by an income guarantee from the Government until 30 June 2021. Whilst we are confident that the services paid for that underpin these charges will recover as the economy recovers, there is inherent risk. We will manage this through close monitoring of fees and charges (of which there are over 700) to ensure we are able to act as and when issues of sustainability arise.

6. Revenue Budget

- 6.1 If it accepts the recommendations in the budget report, the Council plans to spend £2bn in 2021/22 (including schools). After income, this equates to a net expenditure budget of £1bn (£1,030.7m), an increase of £38m, (3.8%) on 2020/21.
- 6.2 The 2021/22 budget includes inflationary pressures (including National Living Wage) of £23m, other service pressures totalling £15m (including £26m of changes in clients/packages across Adult Social Care, partially offset by one-off investment in 2020/21), and one off investment of £46m (including £29m to aid recovery from COVID-19 and £10m to provide support to vulnerable households following the pandemic). This is offset by additional funding of £38m resulting in a net pressure of £46m.
- 6.3 The budget assumes £46m of savings to balance the 2021/22 budget. Of these £30m are recurrent and £16m are one off savings. These include the Meaningful Lives Matter Programme supporting adults with learning difficulties,

the Connect Programme that will 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, efficiency savings against waste treatment and recycling centres, back office savings through process efficiency and service redesign within Customer, Communities, Culture and Corporate portfolio and Finance portfolio, and through the Corporate Finance Review which has identified opportunities to reduce planned contributions to reserves.

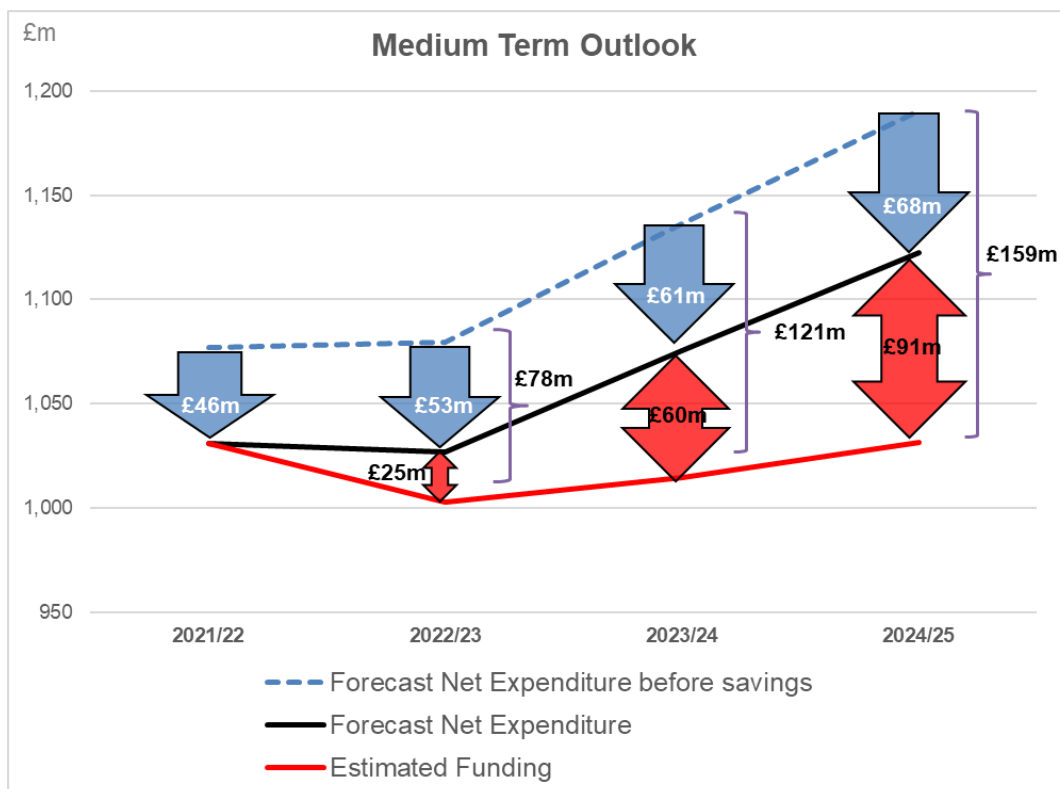
7. Funding and Taxation

- 7.1 The taxbase for 2021/22 is 536,304 Band D equivalents, which is a 0.08% increase from 2020/21. Whilst there has been 1% growth in housing across the county, there has been an increase in households claiming Local Council Tax Support (LCTS) due to a reduction in their household income. The reduction to the taxbase to account for the discount awarded to these households is 4.5% higher than compared to 2020/21. Additionally, there is a forecast reduction in the collection rate of 0.7%.
- 7.2 In the provisional settlement, two schemes were outlined by Government. The first is the Local Tax Income Guarantee, which will compensate for 75% of irrecoverable losses in council tax and business rates income in respect of 2020/21. There is an expectation that billing authorities will continue appropriate collection and enforcement action for outstanding council tax debt, therefore this 75% is designed to mitigate an element of the Collection Fund deficit arising from 2020/21.
- 7.3 The second scheme is a Local Council Tax Support Grant, whereby local government is being provided with one off funding in recognition of the increased costs of providing council tax support and other help to economically vulnerable households following the pandemic. ECC's allocation is £10.2m based on the caseload of LCTS claimants in the county.
- 7.4 Upper tier local authorities have the power to raise tax by a total of 5% in 2021/22 without a referendum. Government has set the referendum cap for core Council Tax at 2%, however the Council is not proposing to take up the option of raising Council Tax. In addition, local authorities with social care responsibilities can increase council tax if the money raised is spent on adult social care through the 'adult social care precept' of up to 3%.
- 7.5 An adult social care precept of 1.5% is proposed, this will yield £10.6m in 2021/22. This provides a partial contribution to the financial pressures in adult social care where the net expenditure is budgeted to increase from £423m to £442m, an increase of £19m. The primary drivers of the increase in cost are the National Living Wage (which has risen from £8.72 to £8.91 per hour), increases in care package costs, and demographic growth.

- 7.6 As part of the provisional settlement, it was announced the Council will receive £28.8m of COVID-19 emergency grant funding for continuing one-off expenditure pressures resulting from the pandemic in 2021/22. These expenditure pressures are not built into the base budget, given the expected one-off nature during the pandemic. As these become clear appropriate decisions will be brought back to Cabinet. Examples of exceptional costs the Council has experienced to date include market support to Adult Social Care providers, costs of providing PPE, test and trace functions, infection control support and increased volumes of domestic waste.

8. Financial Strategy

- 8.1 This report proposes a balanced budget for 2021/22. There is some reliance on one off savings to close the budget gap of £46m, resulting in a structural deficit of £16m or 2% which will need to be permanently resolved in future years. The reliance on one off savings is within the range of those managed within previous years and it is the opinion of the s151 that this is an acceptable level of risk, albeit will need managing through the 2022/23 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 £25m in 2022/23 rising to £91m by 2024/25. The 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 2022/23, given the one year settlement for 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 savings. 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 within the context of increasing demand.

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 proposed new Beaulieu Park Train Station and North Eastern Bypass and Colchester/Tendring A120 A133 link road, 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 7.4% of the net budget in 2019/20, to an estimated 11.1% by 2024/25. In 2021/22, capital schemes which deliver a revenue saving greater than the associated borrowing costs amount to some 12% 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 86) 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 2021/22 is broadly consistent with that applied in previous years, although some changes are proposed to investment limits. That is, the following changes are proposed:
- AAA rated Money Market Funds (LVNAV) – increase from £35m to £60m
 - UK Banks and Building Societies – increase from £70m to £75m and £60m to £65m (limit dependent on credit ratings)
 - Local authorities (upper tier) – reduction from £50m to £30m per local authority

- Local authorities (lower tier) – reduction from £35m to £15m per local authority

- 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. 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 School Services are managed by the Council.
- 10.2 There is an increase in funding of £18.7m for the High Needs Block (HNB) in 2021/22 which is forecast to return the HNB into a balanced position. High Needs expenditure continues to increase due to increasing pupils with special educational needs and disabilities. A further increase in funding is expected in 2022/23 which is the final year of the £7.1bn increase in school funding.
- 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 2021/22 on the assumption that funding will continue

to increase in 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 overspend is being held in a DSG Deficit Reserve which has no effect upon the Council's balance sheet. 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. The increase in funding allows a £600,000 increased contribution to SEND Home to School Transport.

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 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.

- 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 and long term financial commitments (e.g. those associated with long term contracts such as Private Finance Initiative (PFI) and the waste reserve). These total £181m.
- **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, including COVID related exceptional expenditure). This category of reserves total £145m.

- 11.4 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% in recognition of the level of risk associated with reductions in Revenue Support Grant and pressures the Authority faces. It is £65m which is enough to fund the Council's activities for 23 days.

- 11.5 During 2021/22, £137m is expected to be drawn down from unrestricted reserves – a significant proportion of this (£53m) is from the COVID

Equalisation Reserve to utilise funding received from central government to manage the ongoing pandemic. The remainder is principally from the Transformation Reserve (£21m) and the Technology Solutions Reserve (£14m) to finance investment in ongoing change across the Council. Within the budget plans are in place for net contributions of £69m to reserves in 2021/22. In 2021/22 the largest contributions are to the COVID Equalisation Reserve (£29m) and Collection Fund Risk Reserve (£10m, or circa 1% tax base). The latter is funded through a change in the LCTS, where Government has newly directed the specific grant to upper tier authorities (set out at 7.3) to support schemes.

- 11.6 By 2023/24 it is anticipated that the balance of unrestricted reserves will have reduced to £67m (a reduction of £77m). The reduction mainly relates to the COVID Equalisation Reserve where it is assumed that all government funding will have been utilised (£25m), the Carry Forward Reserve where all amounts carried forward from 2020/21 will have been drawn down (£11m), and the Transformation Reserve where assumed annual utilisation exceeds current planned contributions (£30m).
- 11.7 Whilst the level of unrestricted 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.
- 11.8 The Third Quarter report, elsewhere on the agenda, requests approval to create four new reserves:
- COVID Equalisation Reserve - to set aside funding received from government for exceptional one-off costs related to the COVID-19 pandemic. Funding will be placed here until decisions are made on its utilisation.
 - Children's Transformation Reserve - to set aside resources to support transformation capacity to deliver the Children's Sustainability programme.
 - Adults Transformation Reserve - to set aside resources to support transformation capacity to deliver ongoing future sustainability work.
 - Adults Risk Reserve to set aside resources to help manage commercial price pressures that may arise in meeting cost of care.

12. Risks

- 12.1 There are several risks associated with the budget:
- 12.2 The ongoing pandemic results in non-delivery of savings in 2021/22 with a knock on impact in 2022/23. 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, 62% (£28.7m) have a high level of confidence, with 29% medium risk and 9% of savings have a high level of delivery risk. At this

stage these planned savings have a stronger delivery confidence than at this point last year.

- 12.3 The emergence of as yet unknown demand or cost pressures that arise as the pandemic recedes and as a result of the impact of EU exit, particularly in the areas of adults and children's social care.
- 12.4 There is not a full economic recovery and the local tax base is hit through unemployment or loss of business rates. The budget has assumed an economic recovery scenario based on the central projection published by the Monetary Policy Committee and OBR macroeconomic data. If economic recovery is slower than this scenario, this could create further pressure on the medium term budget. The full impact of unemployment is now not expected to be seen until Spring 2021 when the Coronavirus Job Retention Scheme finishes. This could therefore hit our 2022/23 budgets more severely, particularly on the potential impact to the level of council tax and business rates collected. These funding sources are 85% of our total funding, with a 1% fall in council tax reducing funding by £7m.
- 12.5 If there is any material impact on fees and charges as a result of an economic downturn. The fees and charges budget for 2021/22 is £120m.
- 12.6 Any consequential impacts to recurrent government grants (which are currently assumed as continuing at 100%). The one year spending review for 2021/22 has created uncertainty around this.
- 12.7 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.
- 12.8 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 Conservative manifesto guarantee is to achieve a £10.50 wage by 2024, an increase of 18% on the rate set for 2021/22. The precise profile of this and implications for supply chain costs are forecast.

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.