Essex County Council

How we build the budget

Corporate Policy and Scrutiny Committee

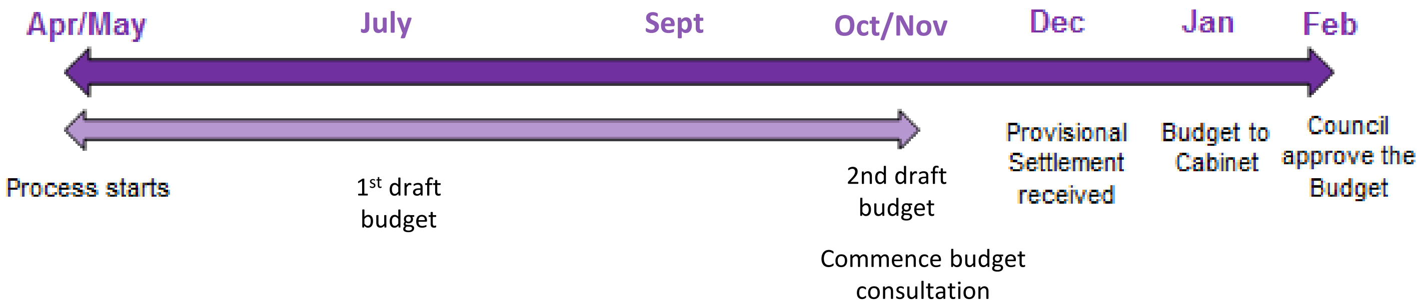
14th December 2023

Budget approach

Our budget and Medium Term Resource Strategy (MTRS) is based on current year budget adjusted for full year effect virements. We then overlay implications of cost drivers (Adult Social Care clients and ECC staffing), forecast inflation and demographics. Cost pressures and growth are reviewed, and then the impact of agreed savings plans is reflected.

Draft Net Expenditure less Forecast Funding = Balanced Budget, or Budget Gap

Timeline



The MTRS produces indicative resource requirements for the next four financial years.

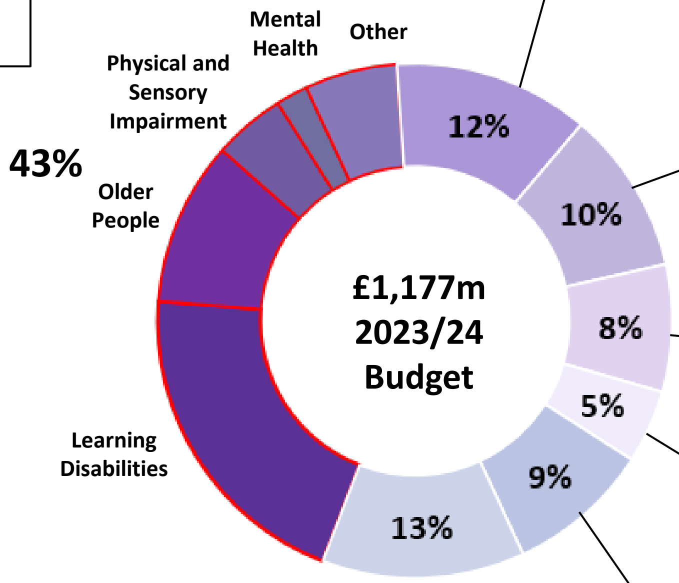
Only the budget for the following financial year is approved at Council in February. We are legally required to set a balanced budget for the next year, but there is usually a gap in future years that indicates the scale of change required.

The 2023/24 Revenue Budget (net)

Adults Social Care and Health
£506m, 43%

- Learning Disabilities £240m
- Older People £121m
- Physical and Sensory Impairment £53m
- Mental Health £24m

A total of **42,054 requests** for support were received in 2021-22



Children's Services & Early Years
£145m, 12%

- Children Looked After £64m
- Childrens Fieldwork £31m
- Childrens Family Support £18m
- Childrens Services and Early Years £13m

1,406 children in need
687 children on a protection plan
1,163 children in care
825 care leavers

Highways Maintenance and Sustainable Transport
£121m, 10%

5,200 miles of road to manage and maintain

Environment and Climate Change Action
£94m, 8%

343,000 tonnes household residual waste

Other Front Line Services
£54m, 5%

Support Services
£106m, 9%

Other Costs
£150m, 13%
Including Capital Financing & Interest / Appropriations to reserves / Insurance

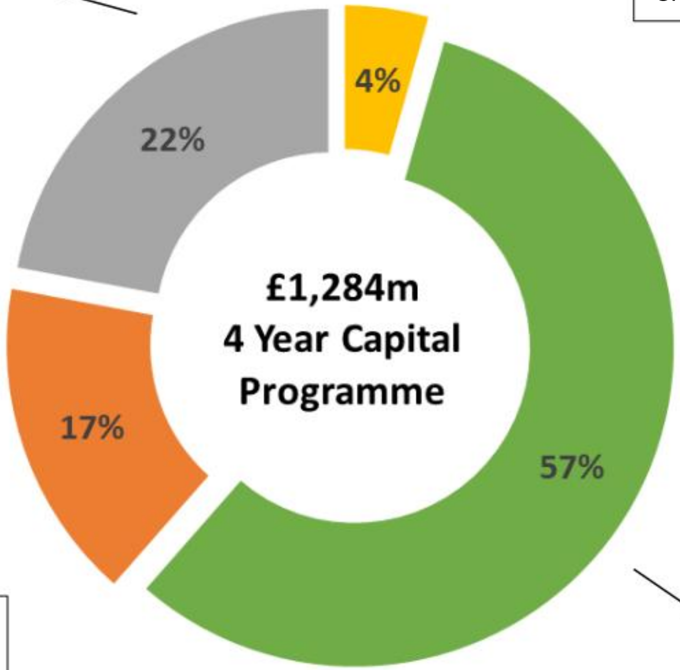
4 Year Capital Programme (2023/24 – 2026/27)

Highways Maintenance & Sustainable Transport
£283m, 22%

Road Maintenance **£113m**
Bridges **£38m**
Footway Maintenance **£32m**
Local Highways Panels **£17m**
LED Rollout **£10m**

Other
£57m, 4%

Building Maintenance **£17m**
Independent Living **£11m**
Children's residential **£3m**



Economic Renewal, Infrastructure & Planning
£732m, 57%

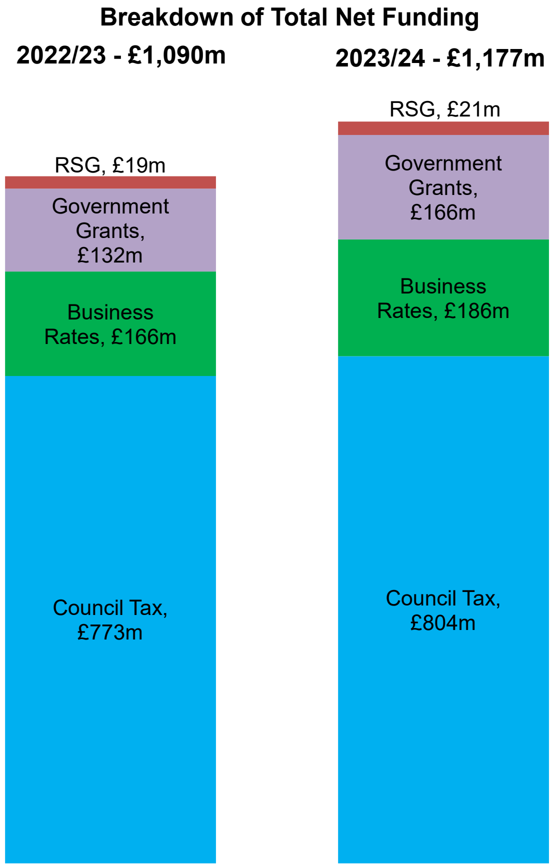
Beaulieu Park Station **£140m**
Essex Housing Programme **£125m**
Chelmsford North Eastern Bypass **£133m**
A133/A120 Link Road **£102m**
Colchester Rapid Transit **£35m**
Harlow Sustainable Transport Corridors **£30m**
Economic Growth **£6m**

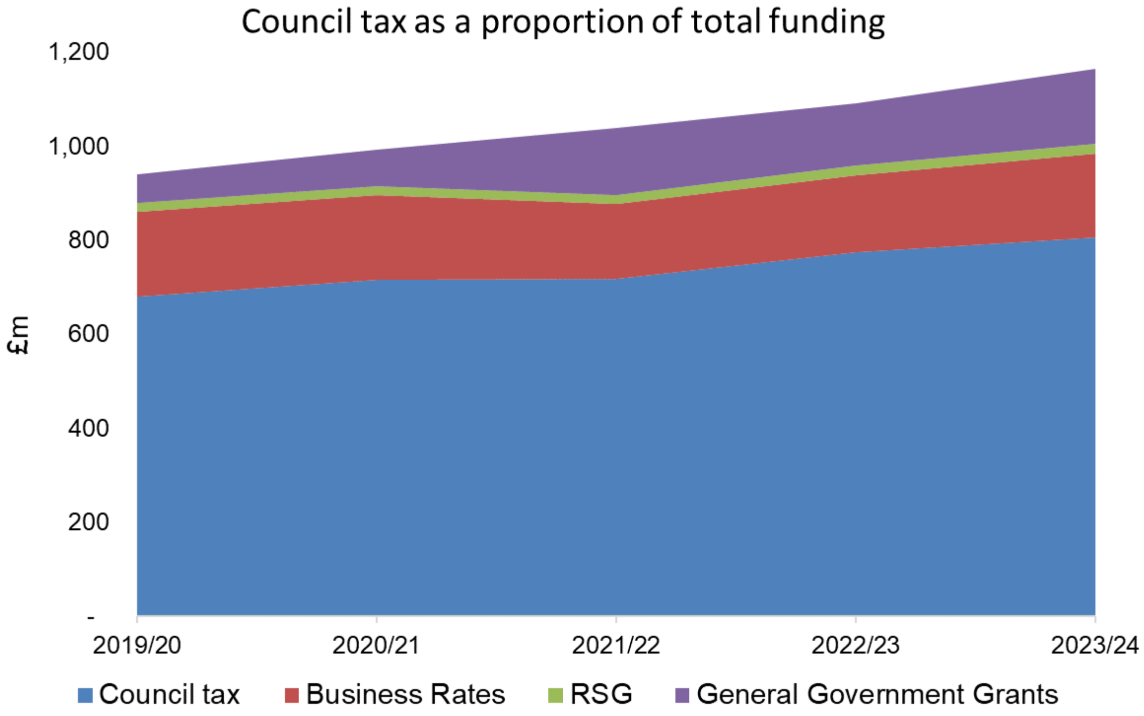
Education Excellence, Life Long Learning & Employability
£212m, 17%

Basic Need Schemes **£120m**
Special Schools **£50m**
Building Maintenance **£31m**
Temporary Accommodation **£10m**

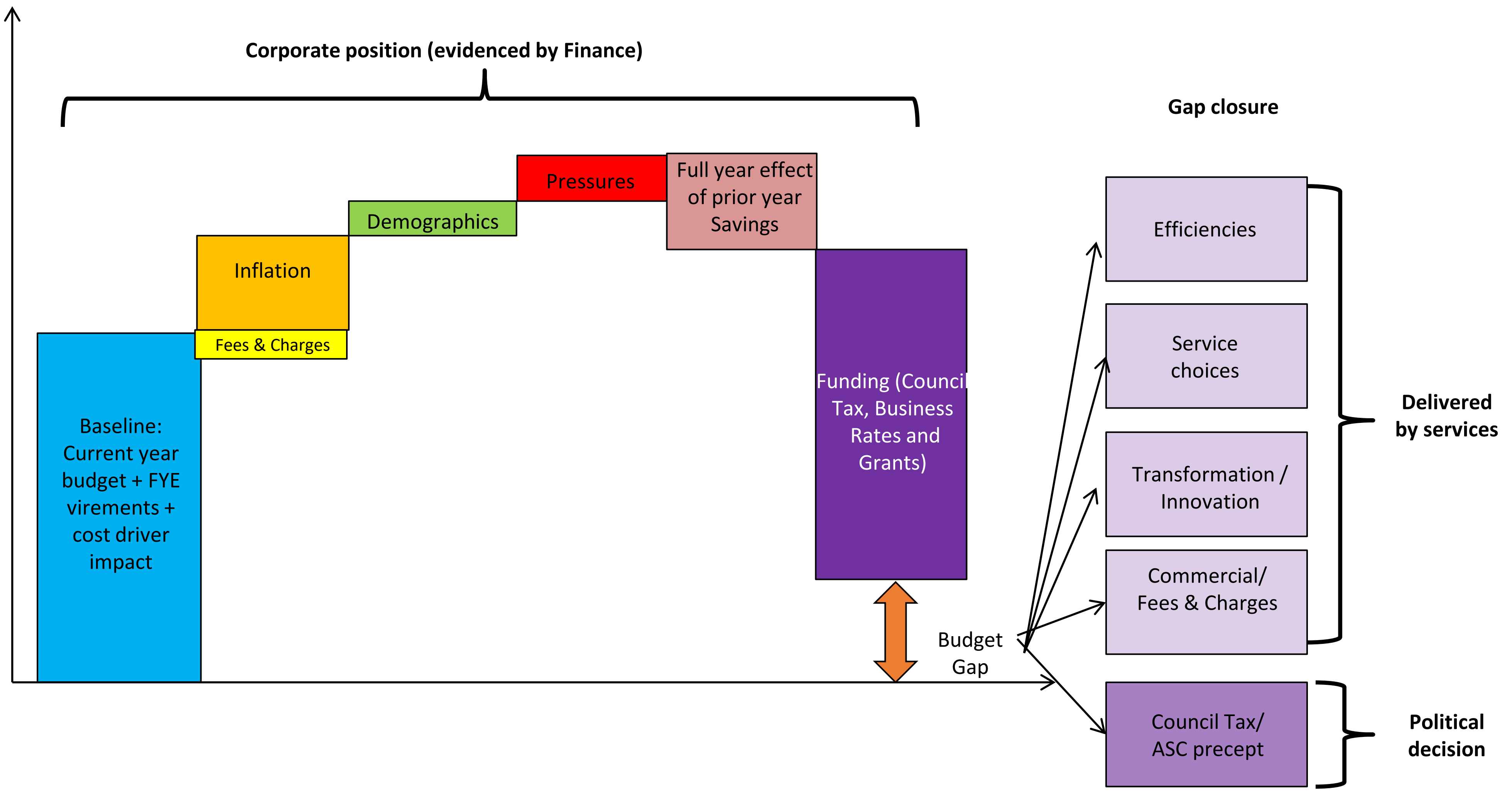
How is the Budget Funded?

Over 84% of the revenue budget is funded through tax, with council tax being the most significant element (68%)





How the budget is built



Budget Assumptions

Baseline
- Current year budget adjusted for full year effect of virements, plus the impacts of adults and staffing cost drivers. Final draft budget will reflect full year effect of virements as at period 7.

Inflation
- All Inflation based on contractual increases and economic/market insight (i.e. contract specific)
- Pay inflation is informed by benchmarking
- All other areas are assumed flat

Fees and charges
- Fees and charges are inflated by RPI (HM Treasury Forecast - August) or per approved policy

Demographics/Volume
- Adults and children's social care volumes are informed by demographic insight provided by the Data and Analytics team

Pressures
- Relate to new burdens, non delivery of savings and capital financing
- Requests for growth are recommended by CLT
- Investment into reserves and other projects agreed by Cabinet

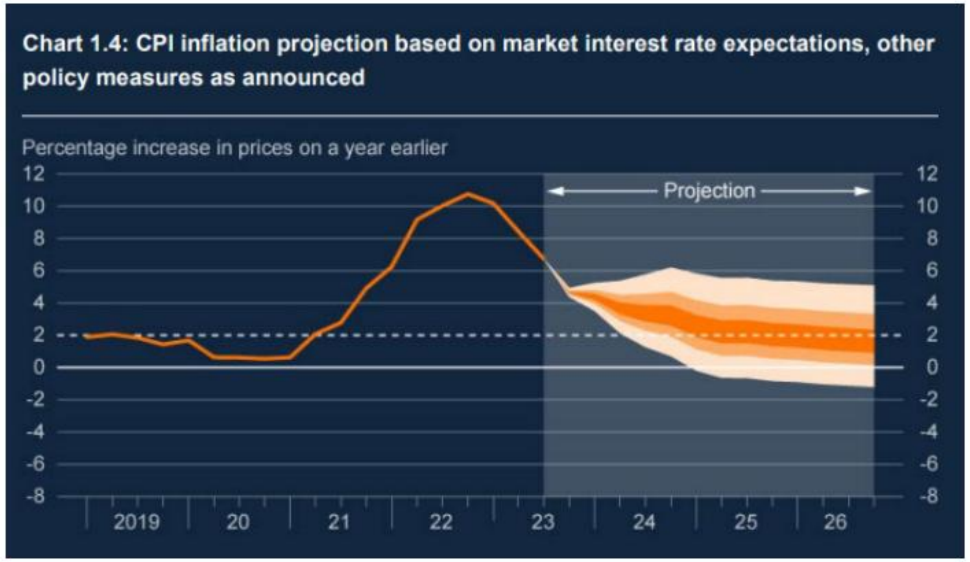
Savings
- Savings are owned by EDs and Portfolio Holders
- Based on proposals put forward through business planning
- May be at different stages of maturity (e.g. conceptual to underpinned by plans)

Funding Assumptions
- Business Rates and Council Tax informed by district information
- No increase assumed in Council Tax after 2023/24
- 1% growth in tax base, based on historic intelligence
- Business Rates – inflation uplift

All assumptions are based on evidence, validated and tested on a regular basis

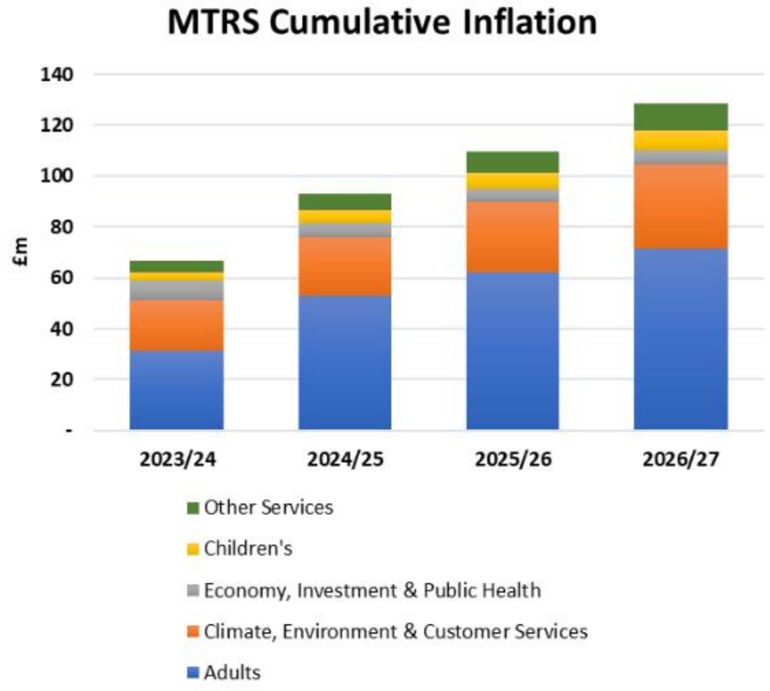
Inflation

We have experienced a sustained spell of higher than normal inflation. Bank of England projections for inflation are now not expecting to return to the 2% target until 2025



The continued volatile position (and rising interest rates) makes the budget requirement across the MTRS period difficult to project.

ECC inflation is primarily contract driven – the budget for 2023/24 allows for £67m, with lesser increments in later years as inflation recedes. By far the largest inflationary pressure is in Adult Social Care.



A significant driver of Adult Social Care inflation is National Living Wage as increases are directly passported to ECC by care providers.

Funding

How we set the **Council tax** budget:

1. District councils estimate their tax base for the following year, based on the following:
   - Properties in the area
   - Estimate of new builds to be occupied in the forthcoming year
   - Estimate of any discounts to be applied, e.g. Single Person Discount, Pensioners, benefit claimants receiving LCTS
   - Estimate of % collection rate, i.e. the proportion they actually expect to collect

2. We take this information from each district and multiply by our Council tax rate, this determines the precept that the district will pay us in the following year

3. Where the cash collected is higher than the precept, this results in a surplus, held in the collection fund (and vice versa a deficit) – which is released in the following year

4. For future years, a growth factor is applied to reflect anticipated housing growth, based on historic intelligence (currently running at 1% across the county)

The budget for **business rates income** is based on the estimates supplied by the district councils based on their forecast collection.

Confidence in MTRS Assumptions

Although the peak has seemingly passed, higher than normal inflation persists, but the Bank of England expects inflation to drop sharply during 2023. However, we now face interest rates at their highest since 2008, and forecast to remain high in the medium term - we continue to face a high level of uncertainty.

Where possible, scenario factors have been refreshed in our 2024/25 modelling at varying ranges of impact.

Our current **confidence levels** for key scenarios are set out below.

Interest Rates
(a series of increases by the Bank of England – now at highest rate since 2008)

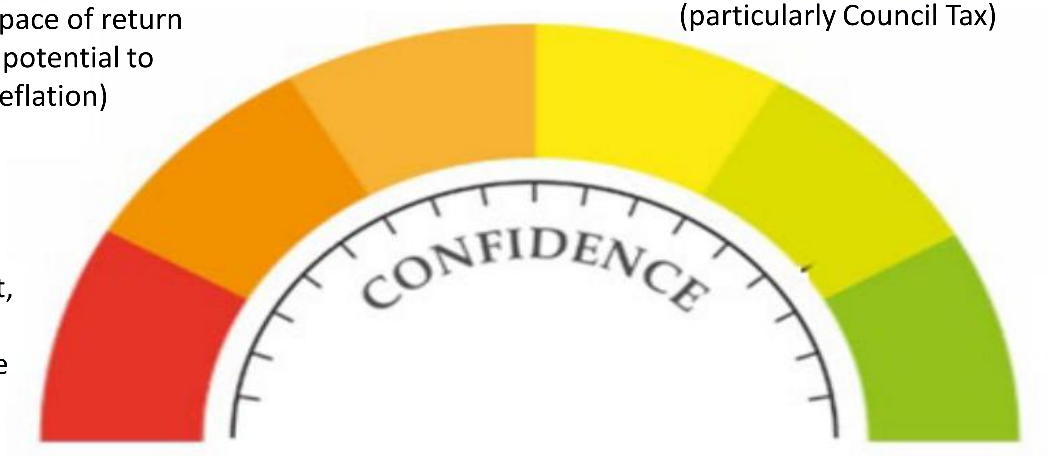
Demand
(particularly due to unquantified)

Savings at risk
(some uncertainty around 2023/24 savings)

Inflation
(uncertainty around pace of return to BoE target, and potential to overshoot to deflation)

Tax revenues
(particularly Council Tax)

Govt funding
(still no multi-year settlement, and no intel for 2025/26 onwards – increasing reliance on specific grants)



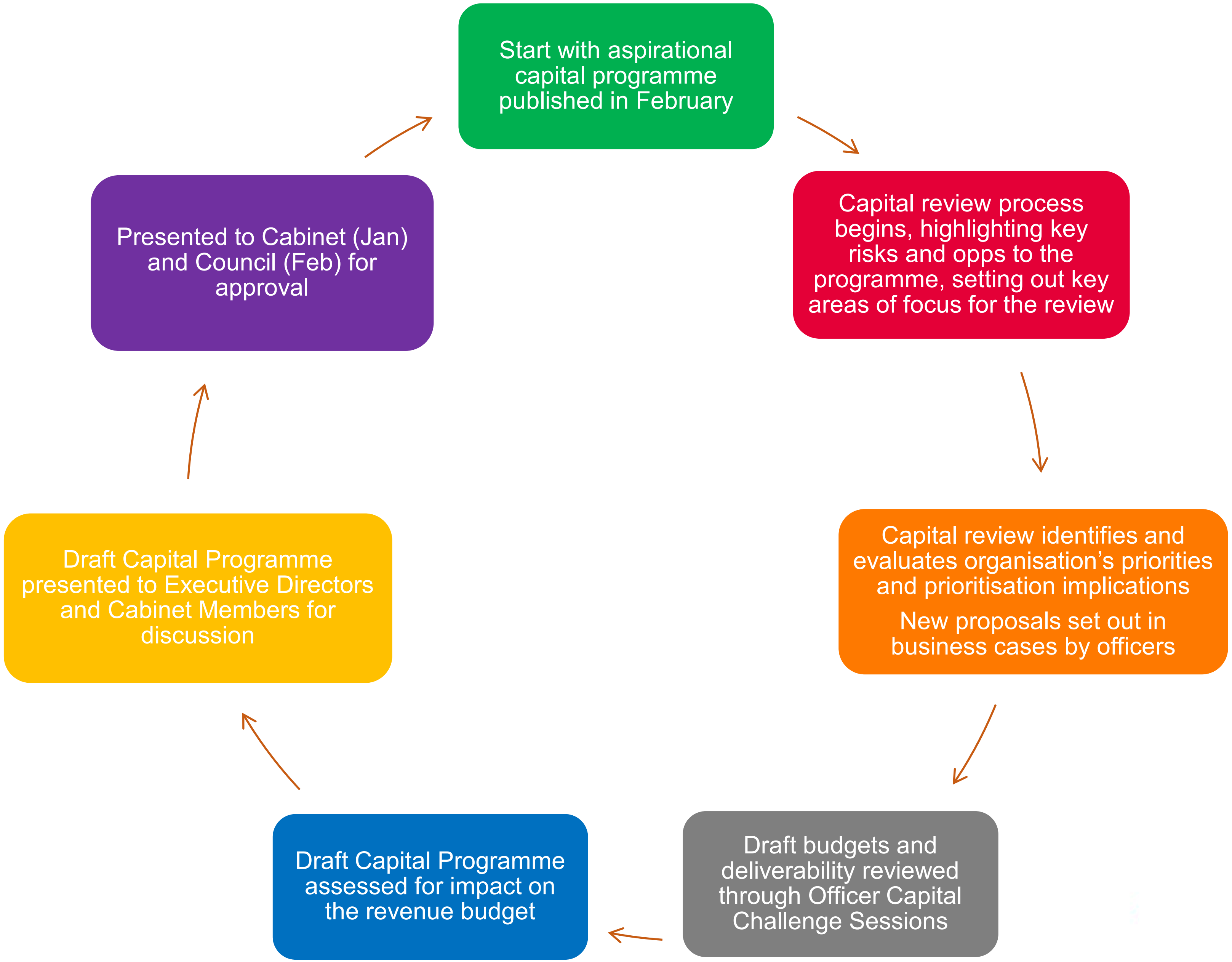
Confidence defined as potential range of £ impact

Risks and uncertainty

The budget is set on assumptions and economic forecasts, but there is inherent risk and uncertainty: **Key risks that lie ahead include:**

1. **Sustainability of collection of taxes** £990m of our funding is from local rates or tax. The impact of the recession on our tax base to date has been less than anticipated, but still a risk that unemployment will rise in the new year.
2. **Market failure in Adult Social Care** Pressures have increased steadily over the past 3 years and are now challenging the capacity of the market to meet demand with raised expectations around Fair Cost of Care pricing.
3. **Children in Care placements** The mix of pent-up demand post pandemic, lack of market supply and the cost of living crisis are driving national increases in complexity, price and numbers.
4. **Uncertainty of Government Funding** Still no multi-year settlement; particular concern from 2025/26 linked to potential social care reform. and if fair funding review redistributes government funding to areas of need, could result in the Council receiving a reduced level of funding.
5. **Workforce availability risk and National Living Wage growth** Specific concerns related to social care and other professions.
6. **Inflation** The current 40 year high level and the uncertainty around recession impacts over the medium term.
7. **Interest rates** Further potential increases to the Bank of England interest rate may create cost pressures, particularly in relation to borrowing for the capital programme.

Setting the Capital Programme



Role of Scrutiny in Budget Planning

Legal Framework for Financial Scrutiny

- **Local Government Act 2000** – role of scrutiny in the financial process to hold the executive to account and to ensure its decisions are in the best interests of the community
- **Local Government Act 2003** – members are involved in budget monitoring throughout the year

The proposed budget for 2023/24 will be presented at Cabinet in January, which will be an opportunity for Committee to scrutinise.

Summary

1. Our budget is based on a set of evidence-based assumptions
2. The volatile and uncertain macro-economic backdrop is providing additional challenge and we continue to update our scenario assumptions to assess likely impact
3. Once the budget is set, it is monitored on a monthly basis and reported to Cabinet on a quarterly basis
4. We have a good track record of delivery on savings and capital investment proposals
5. Our strategic aims and business planning approach will ensure that our resources are linked to the Council's Everyone's Essex priorities
6. We are currently considering a number of savings and investment proposals – alongside what we know on our likely funding levels

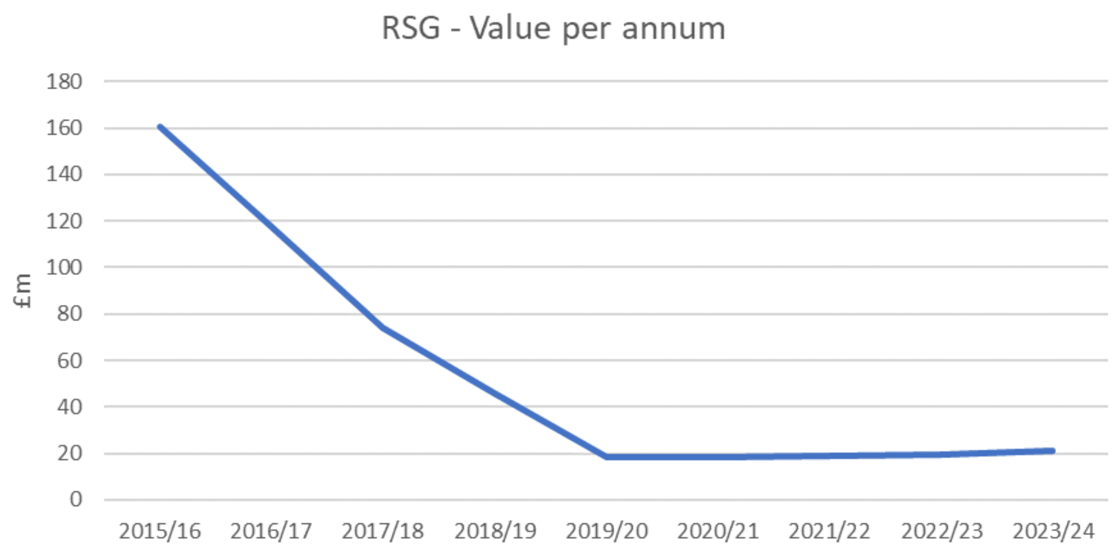
Written Responses

- Revenue Support Grant levels over last few years to help provide further transparency on the trend

Response

Values of the Revenue Support Grant since 2015/16 are set out in the following table and graph

Year	RSG £m
2015/16	160.8
2016/17	117.9
2017/18	73.9
2018/19	45.7
2019/20	18.3
2020/21	18.6
2021/22	18.7
2022/23	19.3
2023/24	21.2



Written Responses

The mid-financial year adjustment for funding Local Highways Panels and particularly whether some previously announced funding of £2.4m was no longer being fully released

Response

There were no approvals requested in relation to LHP's as part of the Quarter 2 2023/24 report.

As part of 2021/22 budget setting an additional £7.2m (£2.4m per annum for 3 years) on top of the annual £4m was allocated to Local Highways Panels through the capital programme.

As part of budget setting for 2023/24, the capital programme underwent a thorough review and prioritisation to ensure the programme remained financially sustainable while continuing to deliver the best outcomes for our residents. As a result of this review, the LHP's capital budget was returned to £4m per year.

Written Responses

The savings anticipated from the Staffing Review and a schedule/forecast on when deliverable and realised.

Response

As part of the budget for 2023/24, a £5m cross-organisation staffing saving was agreed. As set out in the quarterly finance updates to Cabinet, for 2023/24 the saving has not been delivered in full, and work has continued on developing the options for complete delivery. For 2023/24 the shortfall has been mitigated by over delivery on interest receivable.

The saving has now been allocated out across the organisation, with the intention that savings will be delivered in 2024/25.