Agenda item 8
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Report title: Annual Plan and Budget 2022/23 – Part 1: Section 151 Officer Report	
Report to: Full Council	
Report author: Nicole Wood, Executive Director for Corporate Services	
Date: 10 February 2022	**For:** Discussion
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County Divisions affected: All Essex	

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 2022/23 revenue budget; the medium term financial outlook; Financial Strategy; and the Capital and Treasury Management Strategy. The S151 Officer for the Council is the Executive Director for Corporate Services.

Recommendations

2.1 To note this report before making a decision on the recommendations on the budget and capital programme.

Assurance Statement of the S151 Officer (Executive Director for Corporate Services)

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. The resources available to the Council are being targeted to achieve the strategic aims outlined in Everyone's Essex. Since the new administration, new targeted investment has been made available, for example to climate and levelling up through the Everyone's Essex reserve.

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 2021/22 of £46m against a £1bn budget. 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 is appropriate but requires continual monitoring given the risks and volatility of demand, prices and inflation. We will continue to report fully each quarter to Cabinet on the reserves position.

3.4 The 2022/23 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 from 2023/24 and onwards.

3.5 There were early indications that local government would receive a multi-year settlement, however given new expectations for a Fair Funding review in 2023/24, there is only a one year settlement. The Council has certainty of government funding for 2022/23, although considerable uncertainty remains in the sector around the funding structures for local government beyond 2022/23. With the Fair Funding Review now due for 2023/24, it is expected that this will result in a multi-year settlement which will enable better medium term certain planning. However, this also presents risk to the Council notably around the potential of redistribution of grants within the sector, if, as we expect, there is no overall increase to the funding envelope for the sector in the medium term.

3.6 It is imperative the Council maintains focus on financial sustainability and continues the drive to deliver a balanced budget over the medium term.

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’s Strategy and forms part of the Annual 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 Everyone’s Essex plan.

4.3 This report concentrates on the draft 2022/23 revenue budget, level of reserves and capital programme as set out elsewhere on this agenda. It considers key medium-term risks and issues faced by the Council in arriving at the recommended budget and reserves.

Current Financial Context

5.1 Covid-19 has continued to have an enormous impact on our patterns of spend and activity. During 2021/22 we expect to have incurred additional exceptional expenditure and lost income of circa £120m against our £1bn 2021/22 budget, an increase of 12% against the approved budget. Most of these costs have been met through additional exceptional government grants to local authorities.

The majority of the additional expenditure has flowed to support the external market with exceptional price and demand pressures.

5.2 Social Care and Health portfolios represents £987m of gross spend (65% of total budget) - the Adult Social Care and Health portfolio alone represents £737m gross or 47% of the budget*. During 2021/22, it is expected that the social care portfolios will remain broadly on budget, however that has been dependent on very significant government underpinning of the market and with a backdrop of increasing demand:

- £39m of temporary funding from national Covid-19 and ECC specific funds has underpinned the adults social care market in 2021/22 which is due to end in March 2022 (building on similar support in 2020/21)
- the trajectory is one of increasing demand, before any further surges in Covid-19. For example the domiciliary market is supporting 16% more hours of care than at the same time in 2020
- higher referrals and new contacts significantly increased

*`*excluding pass through DSG*

5.3 For 2022/23 and beyond, it is not possible to precisely forecast the demand patterns as new waves of the pandemic approach, but what we are experiencing is increased demand and price pressure, coupled with an inflationary outlook. We will need to closely monitor underlying pent-up demand that is still expected to materialise, as well as new patterns of demand that will emerge as the pandemic ends. Retaining appropriate levels of reserves to provide for exceptional demand and price increase is critical to the financial sustainability of the Council.

5.4 Before the pandemic, the Council was already experiencing increasing demand for our services notably progressively complex packages for children; increasing provision for home to school and special educational need transport; and higher demand across adult social care including adults with learning disabilities and older people. The pandemic has begun to change demand, however in light of the current situation, there will inevitably be further changes and we will need to monitor and respond to those emerging patterns closely.

Revenue Budget

6.1 If it accepts the recommendations in the budget report, the Council plans to spend £2.1bn in 2022/23 (including schools). After income, this equates to a net expenditure budget of £1.1bn (£1,083.4m), an increase of £45.5m, (4.4%) on 2021/22.

6.2 The total pressures on the budget for 2022/23 are nearly £100m and the material pressures are outlined as below:

6.3 Recurring costs include:

- £6m pay inflation
- £20m social care inflation, including the impact of increases to National Living Wage
- £6m other inflation (e.g. on contracts)
- £7m impact of the increase to the national insurance rate
- £7m increase to the cost of financing the capital programme
- £17m impact of demographic changes and “adult client activity” where packages of care end and may be replaced with more costly packages due to changes in need
- £15m to provide for cost of care and demand risks in the care market
- £7m where the 2021/22 budget was balanced using one off savings
- £10m total impact of all other smaller pressures.

6.4 In addition to the known pressures reflected in the budget there are a series of risks that are being managed through the reserves strategy (see section 11 for details on reserves). Some of the emerging risks include:

- Inflation & borrowing risk on the capital programme
- Fragility of our funding position given the ongoing pandemic and inherent uncertainty on funding beyond 2022/23, notably with rates and council tax
- Demand and price pressures in Children’s social care.

6.5 Resource has also been set aside through the reserves strategy to enable additional strategic choices, including:

- New investments in strategic priorities
- Resource to support change to our estate, unlocking revenue savings built into the medium term strategy
- To meet the future cost of replacing key council technology systems and the digitisation of public services.

6.6 The combination of these pressures most significantly impacts the adults social care & health portfolio with a gross base revenue growth of £38m, in addition to increased capacity via reserves to manage the risk.

6.7 The budget assumes £36m of savings to balance the 2022/23 budget. Of these £32m are recurrent and £4m are one off savings. These include continuation of the Meaningful Lives Matter Programme supporting adults with learning difficulties, which is now in its second year, the ongoing Connect Programme that will continue to 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, improvements and efficiencies within the Essex Highways partnership, and more efficient use of our buildings.

Funding and Taxation

Taxation

7.1 In 2021/22, the Council determined to increase the social care precept tax but defer 1.5% of the raise to 2022/23. That deferral, combined with rates increases is expected to yield **£32.8m** in 2022/23.

	Tax Rise	Increased Tax Yield £m
Deferred 2021/22 Adult Social Care Precept	1.50%	10.9
2022/23 Adult Social Care Precept	1%	7.3
Total Adult Social Care Precept	**2.50%**	**18.2**
2022/23 Council Tax Rise	1.99%	14.6
Total Increased Tax Yield for 2022/23	**4.49%**	**32.8**

7.2 Upper tier local authorities have the power to raise tax by a total of 3% in 2022/23 without a referendum. Government has set the referendum cap for the core Council Tax element at 1.99%, and the Council is proposing to take up the option of raising Council Tax at this level. The 1.99% will yield **£14.6m** in 2022/23.

7.3 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 1%. This is in addition to the 1.5% adult social care precept the council approved but deferred in 2021/22. It is proposed the full combined adult social care precept of 2.5% is raised, yielding a further **£18.2m**.

7.4 Council tax collection has remained resilient during the pandemic and short term outlook remains robust, with a forecast increase in the collection rate of 0.2%. There is inherent risk around the volatility of the economy, which has been provided for through ensuring a balance on the collection fund risk reserve of 1.5% of the Council’s annual at-risk tax funding.

7.5 The taxbase for 2022/23 is 545,042 Band D equivalents, which is a 1.86% increase from 2021/22. This brings in a total budgeted council tax of **£763.7m**. There has been 1% growth in housing across the county, and a decrease in households claiming Local Council Tax Support (LCTS) where their household income has fallen below a certain threshold. At present around 9% of households do not pay the full amount of council tax, with 4% exempt in whole, and 5% paying a substantially reduced rate due to their means or status.

7.6 It is estimated Non-Domestic rates for 2022/23 will yield **£177.9m**. However, this level of rates is underpinned through grants from government to offset the reliefs provided to businesses announced in the Spending Review – this gives inherent risk in the sustainability of the base once reliefs end, particularly given the length of time reliefs have been applied for, and needs careful attention. It is also expected that non-domestic rates may form part of the Fair Funding review.

Government Grants

7.7 The Provisional Local Government Finance Settlement from Central Government confirmed the majority of announcements in the Spending Review. A new one-off “Services grant” was outlined by government. This is an un-ringfenced one year grant, and the Council will receive £12.2m. It was also announced there will be additional funding for social care, from which the Council will receive an extra £15m compared to 2021/22 allocations. Combined with the yield from the adult social care precept (£18m), funding for social care in 2022/23 has increased by £33m. This has enabled the Councils investment in social care given the pressures faced, where the combined adults and children’s social care net expenditure budgets have increased by £33m to £594m, as well as the creation of the Children’s Risk reserve for potential additional cost risks (£2.5m).

7.8 The Provisional Settlement also confirmed the continuation of the Revenue Support Grant (RSG) of £19m. The medium-term strategy assumes that RSG will continue at this level, however there is no formal confirmation from government of funding beyond 2022/23, so this presents an inherent uncertainty from 2023/24 and will no doubt be tied into the Fair Funding review for local government.

7.9 The uncertain funding position makes it more complicated to plan for the long term. We expect to receive £170m of specific government grants in 2022/23, aside from grants passported to schools. These grants are only guaranteed to 31 March 2023. Without certainty of multi-year agreements we need to plan on a broad range of funding assumptions.

7.10 In addition to this, for the Dedicated Schools Grant (DSG), an additional £21.9m in respect of the High Needs Block was received. There was only a one year funding announcement for DSG.

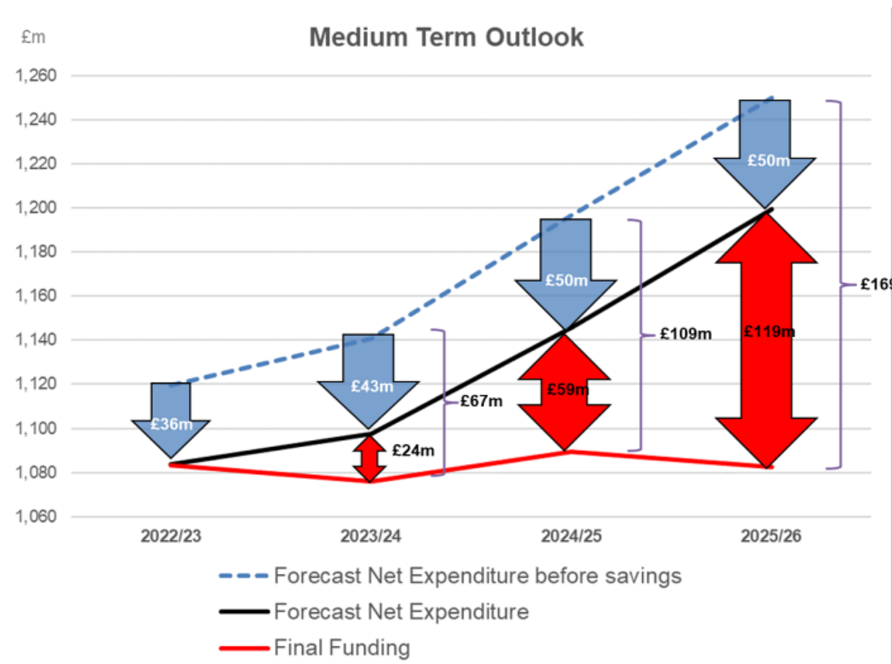
Other

7.11 Further, we rely on a significant amount of income from fees and charges, budgeted at £122m in 2022/23. As the pandemic continues, inevitably a number of these charges have been negatively impacted. Whilst we are confident that the services raising these charges will recover as the economy bounces back and have budgeted for that recovery, there is inherent risk which can be supported in the short term through retained Covid-19 reserves. We will manage this through close monitoring of fees and charges (of which there are just under 700) to ensure we are able to act as and when issues of sustainability arise.

Financial Strategy

8.1 This report proposes a balanced budget for 2022/23. There is reliance on one off savings to close the budget gap of £36m, resulting in a structural deficit of £4m or less than 0.5% which will need to be permanently resolved in future years. The reliance on one off savings is less than in recent years and it is the opinion of the s151 that it carries an acceptable level of risk, however this will still need to be appropriately managed through the 2023/24 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 £24m in 2023/24 rising to £119m by 2025/26, before further tax rises. The outlook for the authority is set out below, however this mid range scenario is likely to change given the context of Fair Funding Reform for local government from 2023/24:



8.3 The Council has a robust savings, income and efficiency programme which enables setting a balanced budget for 2022/23 and with a further £14m of savings out into 2023 to 2026. In 2022, there will be renewed focus on looking at further ways to transform the Council and identify ways to drive further savings, including through use of technology and digitisation. 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. The realignment of resources to ensure they are focused on the aims set out in Everyone's Essex will also continue to be a key focus.

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 8% of the net budget in 2021/22, to an estimated 10.6% by 2025/26. This is before further rises in interest rates. There is inherent risk with cost escalation due to inflation and higher borrowing costs as base rates rise. However, it is key the Council continues to look to manage within the budgeted cost envelope of the capital programme, through reprioritisation and rescoping.

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 Corporate Services 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 83) 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 2022/23 is 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 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.

Dedicated Schools Grant (DSG)

10.1 The DSG is part of the Council's budget and is made up of 4 blocks: Schools, High Needs, Early Years and Central School Services. The Schools Block is passported directly to schools and is managed by schools. A significant proportion of the Early Years Block is passported to early years providers. The High Needs and Central School Services blocks are managed by the Council.

10.2 Total funding for 2022/23 increases by £53.4m, the Schools Block increases £37.8m, the High Needs Block increases £14.4m, the Early Years Block increases £1.2m and the Central School Services Block decreases £119,000

10.3 In addition to this, further funding was announced in the 2021 Spending Review which will be paid as a Schools Supplementary Grant for 2022/23 but will be baselined in DSG for 2023/24. Mainstream schools receive an additional £29.8m and funding for high needs will increase a further £7.5m. This results in a total increase in funding of £90.7m for 2022/23.

10.4 The increased funding is expected to return the High Needs Block to a surplus balance, however the demand for Education, Health and Care Plans continues to increase. Further increases are anticipated from £1.5bn increases in school funding in 2023/24 and 2024/25.

10.5 The Department for Education (DfE) has stated that with the increase in funding to the High Needs Block it expects local authorities to only request transfers from the Schools Block in exceptional circumstances. The Council has not made any requests for 2022/23. Should the increase in funding in future years not be sufficient the Council will request a transfer from the Schools Block.

10.6 The DSG currently has an under spend due to the Early Years Block, this position will be monitored for future volatility in the number of take up hours, plus may allow potential plans for early intervention projects to be drawn up. It should be noted that the increased demand for special educational needs and disabilities also impacts on Non DSG services, namely, Home to School Transport and Transitions.

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 in medium term planning. 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 £200m.
- **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-19 related exceptional expenditure). This category of reserves total £226m.

The ability to draw on unrestricted reserves has been particularly important over the last two years when significant additional costs have been incurred in response to the Covid-19 pandemic. In 2020/21 £113m was drawn down to support exceptional spending and in 2021/22 we are forecasting £117m to be applied to one-off costs. Over the next four years the Council is anticipating that this draw down trend will continue with the purpose of the funds shifting away from emergency responses towards investment in developing strategic priorities in line with the ambition of the Everyone’s Essex plan.

11.4 During 2022/23, £107m is expected to be drawn down from unrestricted reserves – a significant proportion of this (£23m) is from the Covid Equalisation Reserve to utilise funding received from central government to manage the ongoing pandemic. £15m is expected to be applied from the Everyone’s Essex Reserve to deliver short term or pilot initiatives associated with the strategic priorities of the Everyone’s Essex plan. This will include positive Climate Change activities, supporting the Levelling Up agenda, Economic Recovery and Heritage and Arts investments. It is anticipated that there will be calls on the Reserve for Future Capital Funding of up to £15m to meet unavoidable inflation on the capital programme and enable carbon reduction in building, the Transformation Reserve (£13m) and Technology and Digitisation Reserve

(£8m) both to finance investment in innovation and ongoing change across the Council, the Carry Forward Reserve (£12m) where services have carried forward unspent budget from the 2021/22 financial year to support the 2022/23 budget position and the Emergency Reserve (£9m) where we have budgeted to mitigate the potential wider impact of cost pressures arising from the increase to national insurance rates. Within the budget plans are in place for net contributions of £66m to reserves in 2022/23. The largest contributions are to the Reserve for Future Capital Funding (£15m), Transformation Reserve (£12m), Technology and Digitisation Reserve (£10m) and Emergency Reserve (£9m).

11.5 By 2024/25 it is anticipated that the balance of unrestricted reserves will have reduced to £138m (a reduction of £87m). The reduction mainly relates to the Everyone's Essex Reserve (£44m) as it is utilised to fund strategic priorities, the Covid Equalisation Reserve where it is assumed that all remaining government funding will have been utilised (£24m), and the Carry Forward Reserve (£12m) where all amounts carried forward from 2020/21 will have been utilised.

11.6 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 to fund the gap.

11.7 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% of net revenue budget in recognition of the level of risk associated with the pandemic response and pressures the Authority may face. The balance is £68m, which is enough to fund the Council's activities for 23 days.

11.8 The 2021/22 Third Quarter report, elsewhere on the agenda, requests approval to create one new reserve:

- Children's Risk reserve: to set aside resources to help manage price and demand pressures that may arise from the changing landscape of Children's services

Risks

12.1 There are several risks associated with the budget:

12.2 The ongoing pandemic and focus on recovery results in non-delivery of savings in 2022/23 with a knock-on impact in 2023/24. 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, 35% (£12.5m) have a high level of confidence, with 46% medium risk and 19% of savings have a high level of delivery risk. At this stage these planned savings have a weaker 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 the possibility that pent up demand emerges, particularly in Children's services.

12.4 Pressures in the Adult Social Care market have increased steadily over the past 18 months and are now challenging the capacity of the market to meet demand, resulting in a destabilised market, with a heightened risk of provider failure. Circa £34m of government funds have been passported directly to providers to support pandemic related costs in the current financial year along with £14m of Council Covid-19 specific funds, and these funding streams are not expected to continue in to 2022/23, creating a high risk of additional cost pressures impacting the Council. Whilst this is currently predominantly focussed on the Adult Social Care market, there is a risk other markets may begin to be impacted.

12.5 The impact of the pandemic on the Council's tax base has been less than originally anticipated. However, there is still a risk that unemployment rates will rise in the new year, which may hit the local tax base and business rates. Our budget has assumed a continued 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. This could therefore hit our 2023/24 budgets more severely, particularly on the potential impact to the level of council tax and business rates collected. These funding sources are 87% of our total funding, with a 1% fall in council tax reducing funding by £8m.

12.6 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 £122m.

12.7 Any consequential impacts to recurrent government grants (which are currently assumed as continuing at 100%). The one year provisional financial settlement for 2022/23 has created uncertainty around this, as well as the expected fair funding reform, which will look at redistribution of government funding to areas of need, and could result in the Council receiving a reduced level of funding from government in the medium term.

12.8 The extent and management of social care demand is a significant risk given that people are living longer, may have greater 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.

12.9 The current high level of the CPI rate (5.1% for November) and the uncertainty around how high the rate may go, and over what period of time it prevails. 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 hourly wage by 2024, an increase of 11% on the rate set for 2022/23. The precise profile of this is unknown however the assumed implications for supply chain costs are forecast within the draft budget numbers.

12.10 Further potential increases to the Bank of England interest rate may create cost pressures for the Council, particularly in relation to borrowing for the capital programme, where we have an ambitious aspirational programme. This will continue to be monitored both for short term impact, and potential medium term scenarios.

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.