

Finance Update

Corporate Policy and Scrutiny Committee

8th December 2021

Purpose

1. Half Year Key Messages
2. Medium Term Resource Strategy – How we build the budget

Half Year Report Key Messages

COVID Update

Half Year key messages

Purpose

1. To provide an overview of the 2021/22 position at the Half Year stage
2. To respond to the Committee on questions around the 2021/22 financial position

Key messages

- **Revenue under spend of £3.9m (0.4%)** predominantly driven by Adult Social Care
- Continued uncertainty – Covid-19 and demand for services, plus the upcoming winter period managing both the pandemic and a possible resurgence of flu, are all factors that influence the underlying patterns of demand and require careful monitoring
- With the end of the Coronavirus Job Retention Scheme we continue to be mindful of the risk that the 2022/23 Council Tax base could be negatively impacted by unemployment, which could result in a significant funding reduction for the Council
- The Council has continued to be proactive in its response to COVID-19. Known costs are in the region of £100m for 2021/22, and we have sufficient funding for this. Should the current situation surrounding COVID deteriorate, this funding position will be re-evaluated
- **Capital under spend of £4.6m (1.5%)** against the latest budget of £300m

Half Year 2021/22

Revenue



Forecast under spend **£3.9m / (0.4%)**

Savings



£46m planned in 2021/22
- £6.8m at risk of non-delivery

Capital



£4.6m under spend vs budget
(1.5%)

Key Drivers



Adult Social Care placements
Children's placements
Registrars income



Libraries
SEND Operations Team



Chelmsford North Eastern Bypass £3.9m
Harlow Primary £2.6m
Special Schools £2.1m



M11 J7A £5.2m
Local Highways Panels £2.4m

Financial Impact of COVID-19 (i)

- Currently estimate spending pressures and income losses in the region of **£100m**. Some of the larger elements include:
 - ❑ **£30m** for Contain Outbreak Management Funding - supporting business
 - ❑ **£8m** for adult social care COVID Resilience Fund
 - ❑ **£3m** to support the viability of domiciliary care providers for the impact of staff and carers having to self-isolate
 - ❑ **£16m** for the Adult Social Care Infection Control Fund and Rapid Testing Fund
 - ❑ **£5m** for the COVID Local Support grant
 - ❑ **£4m** Test and Trace
 - ❑ **£4m** for Waste pressures as a result of increased volumes
 - ❑ **£2m** for lost income and additional expenditure in Country Parks and Essex Outdoors
 - ❑ **£2m** for lost income in Park & Ride
 - ❑ **£2m** for additional capacity and support within Children's social care
- Total COVID grant funding available from 2021/22 grants and 2020/21 carry forwards is currently around **£120m**, although new grants continue to be announced. However given the level of uncertainty around ongoing restrictions and the unquantified risks we face, there may be further cost pressures and income losses that materialise in the remaining months of the year or carry on in to future financial years

Medium Term Resource Strategy – How we build the budget

Budget approach

Our budget and Medium Term Resource Strategy (MTRS) is based on current year forecast and expenditure and income cost drivers. We then overlay implications of 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**

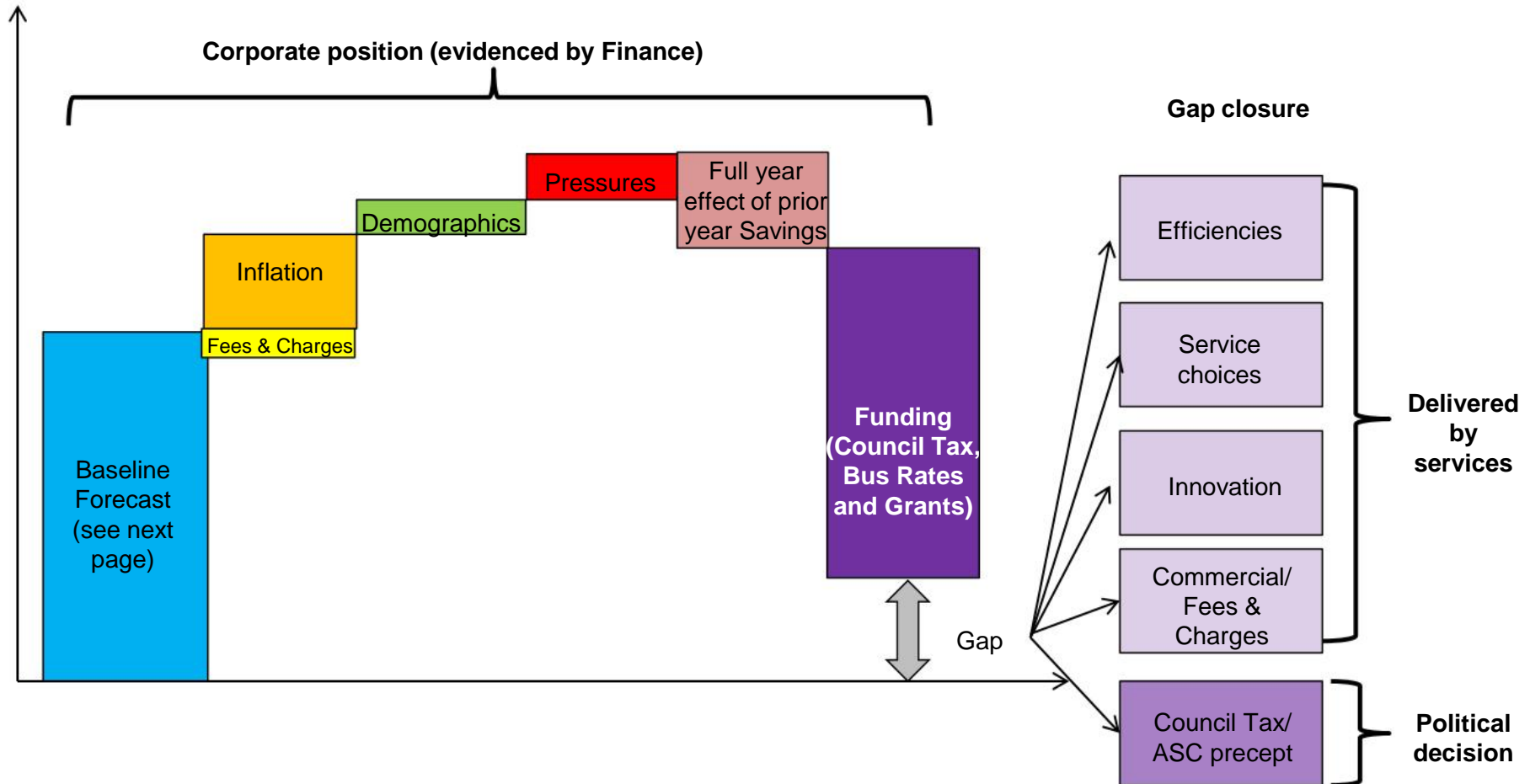
Timeline



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.

How the budget is built



Budget Assumptions

Baseline forecast

- Driven by adults and staffing cost drivers, plus current year forecast for remainder. Final draft budget will be based on period 6 forecasts.

Inflation

- All Inflation based on contractual increases and market insight (i.e. contract specific)
- Pay inflation is assumed at 2.5%
- 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 non delivery of savings and capital financing
- Requests for growth are agreed by CLT
- Investment into reserves and other projects agreed by Cabinet

Savings

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

Funding Assumptions

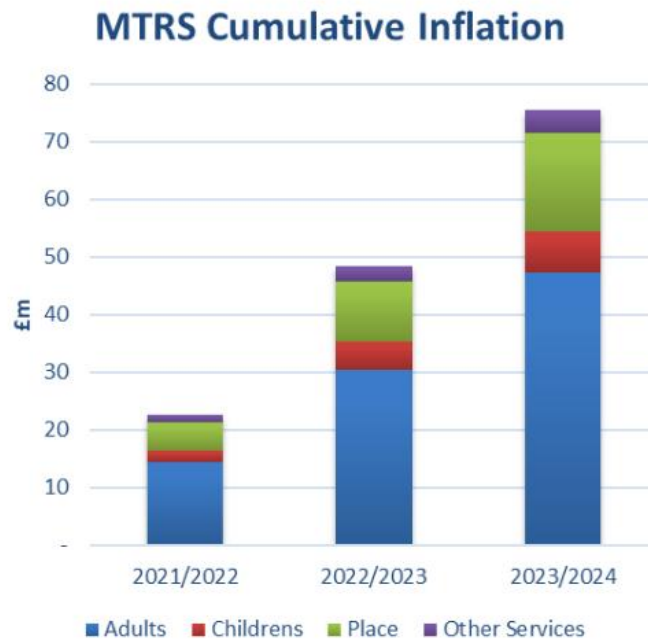
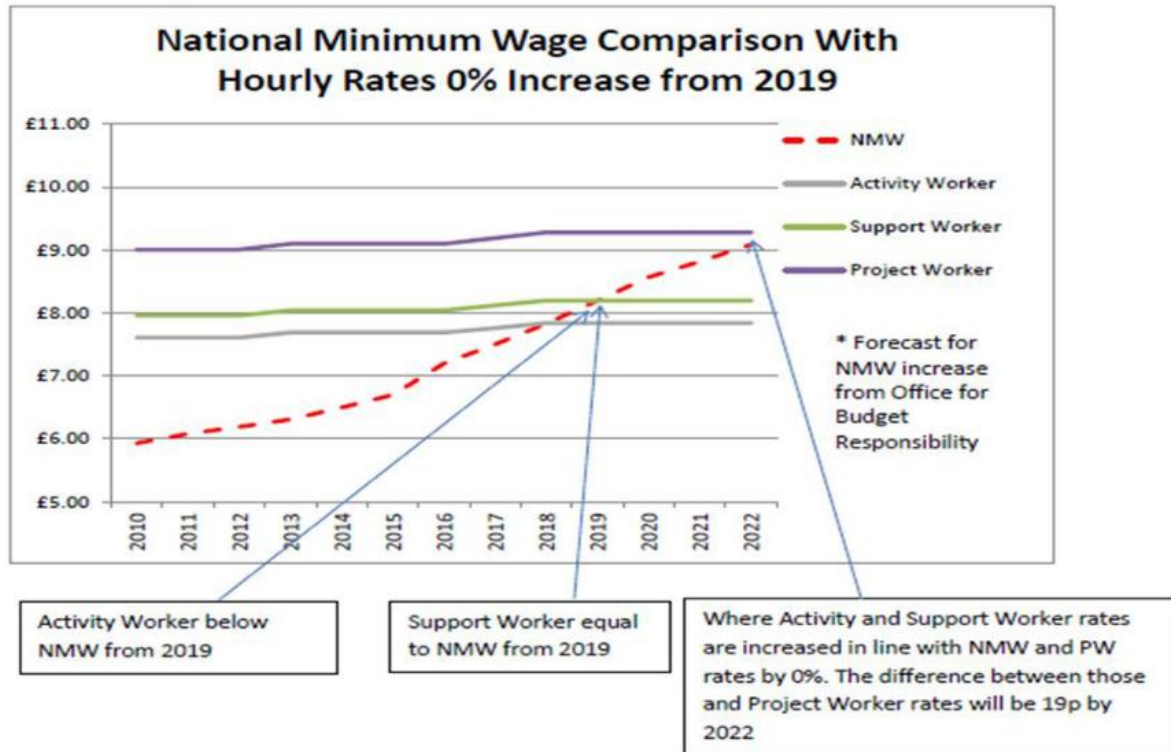
- Business Rates and Council Tax informed by district information
- No increase assumed in Council Tax after 2021/22 other than 1.5% deferred social care precept (**this is a political decision**)
- 1% growth in tax base, based on historic intelligence
- Business Rates – inflation uplift

**Spending Review in 2020
announced additional funding –
but only for 2021/22.**

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

Inflation

Inflation is primarily contract driven – the current approved budget allows for £23m in 2021/22. By far the largest inflationary pressure is in Adult Social Care.



A significant driver of this is National Living Wage which surpassed current pay for activity and support workers in 2019, meaning increases thereafter 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)

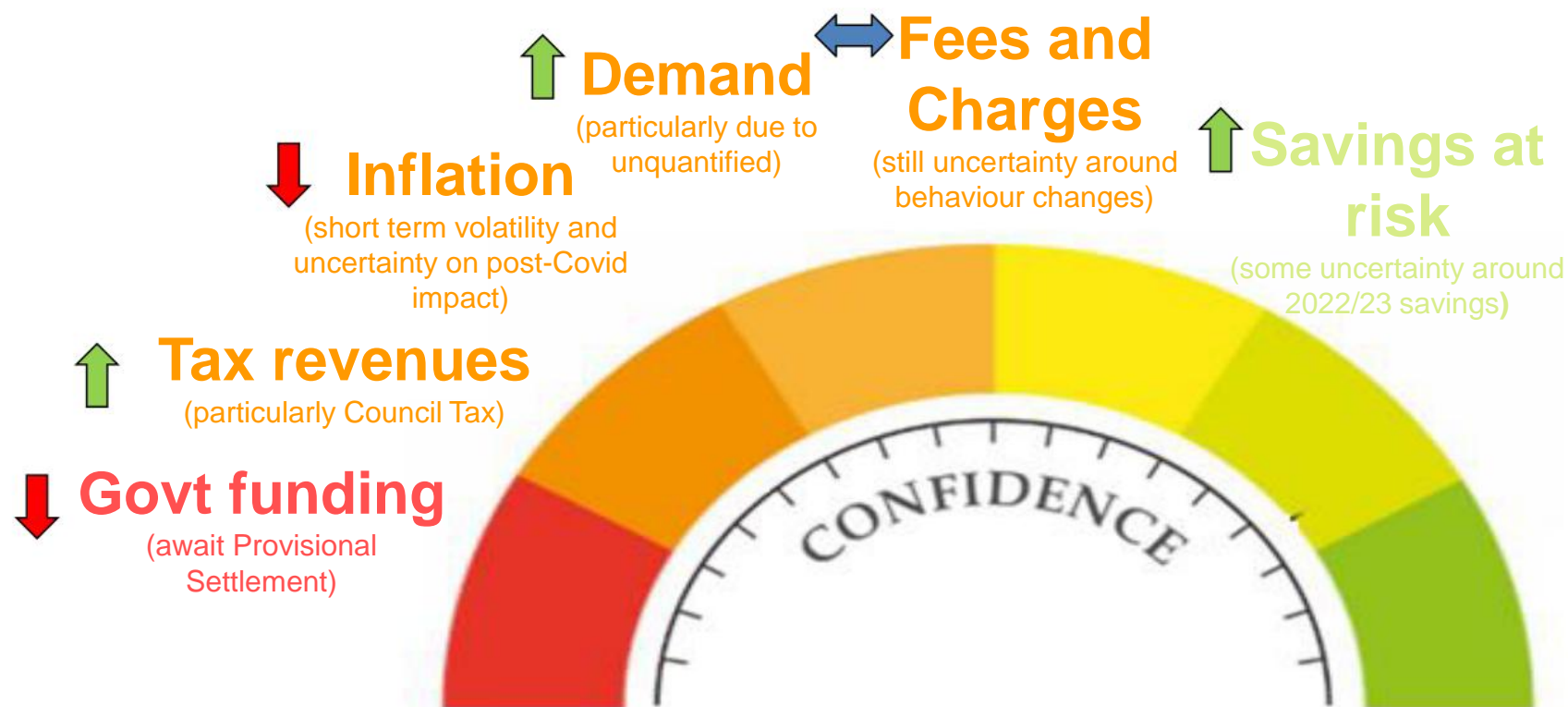
The budget for **business rates income** is based on the estimates supplied by the district councils based on their forecast collection.

Scenario Assumptions

With the success of vaccinations and lessening of restrictions and interventions, the level of uncertainty we face is not quite as daunting as at the same time last year.

Where possible, scenario factors have been refreshed in our 2022/23 modelling at varying ranges of impact.

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



Confidence defined as potential range of £ impact

Government Settlement

The provisional local government finance settlement for 2022/23 is due in December, last year this was published on 17th December 2020.

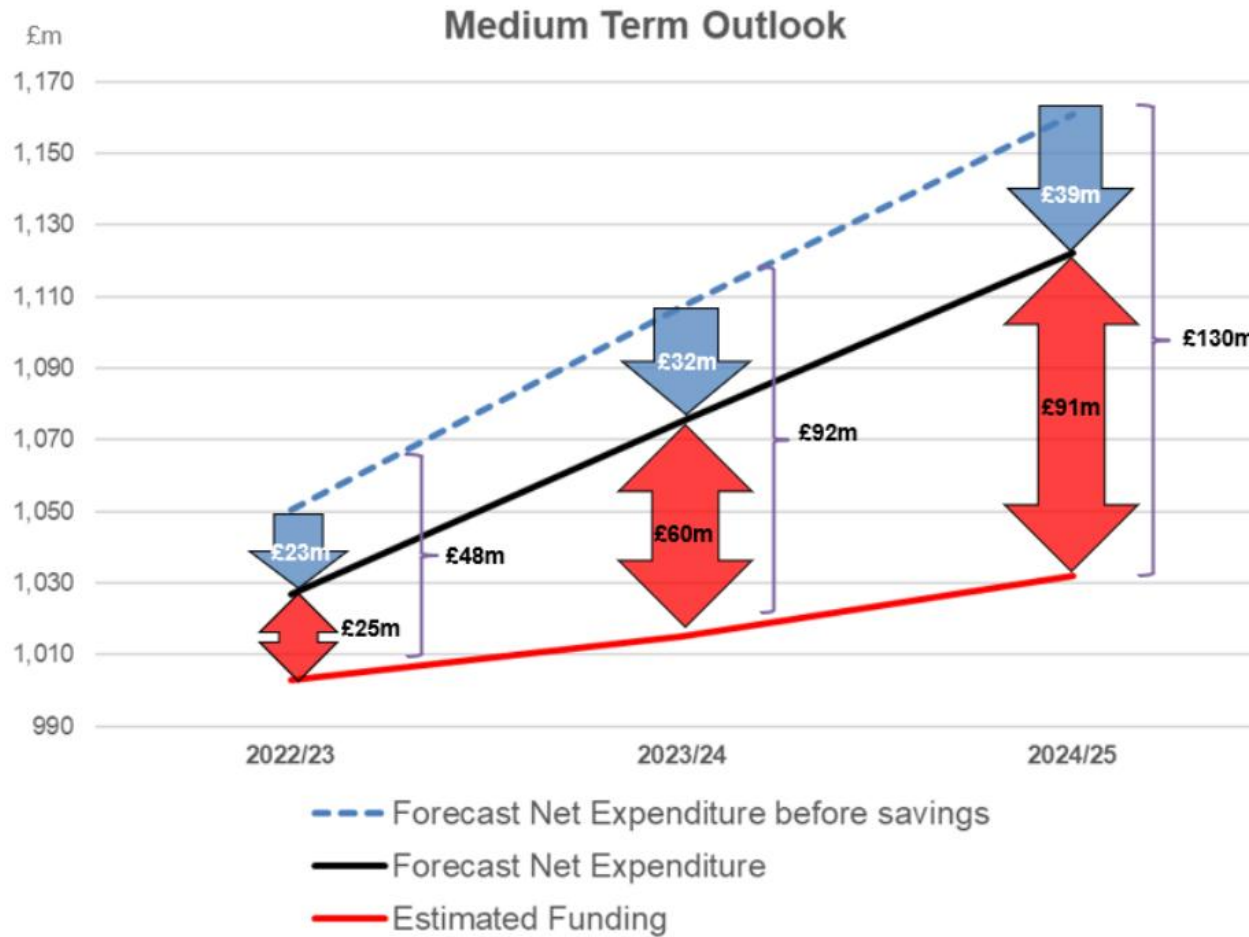
Settlement will confirm referendum principles and the social care precept for the forthcoming year, and it will also confirm grant levels. These are expected to be 2% and 1% respectively.

Grant	Budget 2021/22 £m	MTRS 2022/23 £m	Assumptions in MTRS	Confidence
Business Rates Compensation Grant	33.0	12.1	Business rates relief assumed to return to pre-pandemic levels. Any change is offset by a corresponding change in business rates income. Will be confirmed with provisional returns from districts.	
Adult Social Care Support Grant	33.3	33.3	Aligns with £2bn manifesto commitment	
PFI Grants	23.0	23.0	In line with contractual schedules	
Revenue Support Grant	18.7	18.7	Anticipated to continue	
New Homes Bonus	3.6	3.6	Anticipated to be reprioritised, but remain in local government, pending outcome of consultation.	
Independent Living Fund Grant	5.1	-	1 year extension to grant announced for 2021/22, no expectation beyond that point	
Inshore Fisheries & Conservation Support Grant	0.2	0.2	Anticipated to continue	
Extended Rights To Free Travel	0.8	0.8	Anticipated to continue	
Social Care - share of £300m	5.0	-	Currently assumed as one-off for 2021/22	
Social Care - new funding based on NI uplift	-	-	Pending outcome of CSR	
General Government Grants	122.6	91.7		
Public Health Grant	60.8	62.7	Budget set in line with current year actual grant. Will not be confirmed until December so degree of risk	
Better Care Fund	45.0	45.0	No inflationary uplift currently assumed	
Specific Government Grants	105.8	107.7		

The CSR has not changed any of our current grant assumptions – we await full details in Provisional Settlement

Uncertainty – Medium Term Resource Strategy

The refresh of scenario assumptions confirmed it was still appropriate to plan around the gap as published in the budget papers at February Council



Key dates:

- We anticipate the Provisional Settlement on 16th December

Spending Review - Headlines



Tax Flexibility – expected 2% basic precept and additional 1% social care precept

New Local Government Grant – £4.8bn over 3 years, so £1.5bn expected for 2022/23, awaiting distribution methodology and terms and conditions

Pay – Freeze on public sector pay removed. Increase yet to be determined

NLW Increase – Confirmed 6.6% increase to £9.50 per hour (higher than expected)

Public Health Grant – to be maintained in real terms

Business Rates – freeze in the multiplier, further 50% discount for retail, hospitality and leisure businesses in 2022/23, no impact on ECC

Road Maintenance – £2.7bn over the next 3 years for local roads maintenance - £411m allocated for East of England – no detailed allocations yet

Profiling of £3.6bn Social Care Levy – confirmed £200m in 2022/23

Multiple specific grant announcements across departments – may be allocated to Local Government

From the announcements Core Spending Power will rise by 3%, **however this assumes that the full 1% precept and 2% council tax (cap) will be applied.**

Managing Uncertainty



There are major risks that are highly volatile and could impact the budget: these include:

1. **Continued uncertainty post 27th October CSR** (this particularly impacts grants – we receive 12 major funding streams of £228m of grants, many of which we only have 1 year deals)
2. **Ending of Furlough/Rates support schemes** and potential unemployment impact on our tax base; we currently assume a full recovery of tax base by 2022/23
3. **Cost of Care escalation** – CPI, energy and pay pressures before consideration of policy impact of Build Back Better. Short term resilience through Adults Risk reserve – but very limited
4. **Market failure or collapse leading to cost escalation** – particular risk in care home workforce around requirement for full vaccination status from October – consultation underway for all front-line care staff
5. **Inflationary pressures across all services & construction** - already seen on energy; August 2021 saw largest ever monthly increase in CPI; huge variation in some pay sectors, unfunded burden due to NI change
6. **Demand pressures** notably SEN and care, including impact of NHS backlog
7. New government policies creating new **unfunded burdens** (eg unregulated placements)

National Insurance levy

The 15% allocation of the NI levy increase to social care (£5.4bn) **is not sufficient to meet the known burdens of the social care announcements**

- Direct employer workforce cost of NI increase (estimated at £2m for ECC) will be met by government – however this leaves us with the inherent risk around the care market and supplier base.

This presents a very volatile position and notably from 2022/23

Potentially unfunded burdens:

- Self funders access to Local Authority rates – will increase our current rates as private subsidy removed/reduced
- Pay for care workforce – no new funding, will only form part of the workforce white paper
- Implementation costs on ECC workforce – significant increases in staffing to meet new needs (such as Assessment, Financial Assessor)

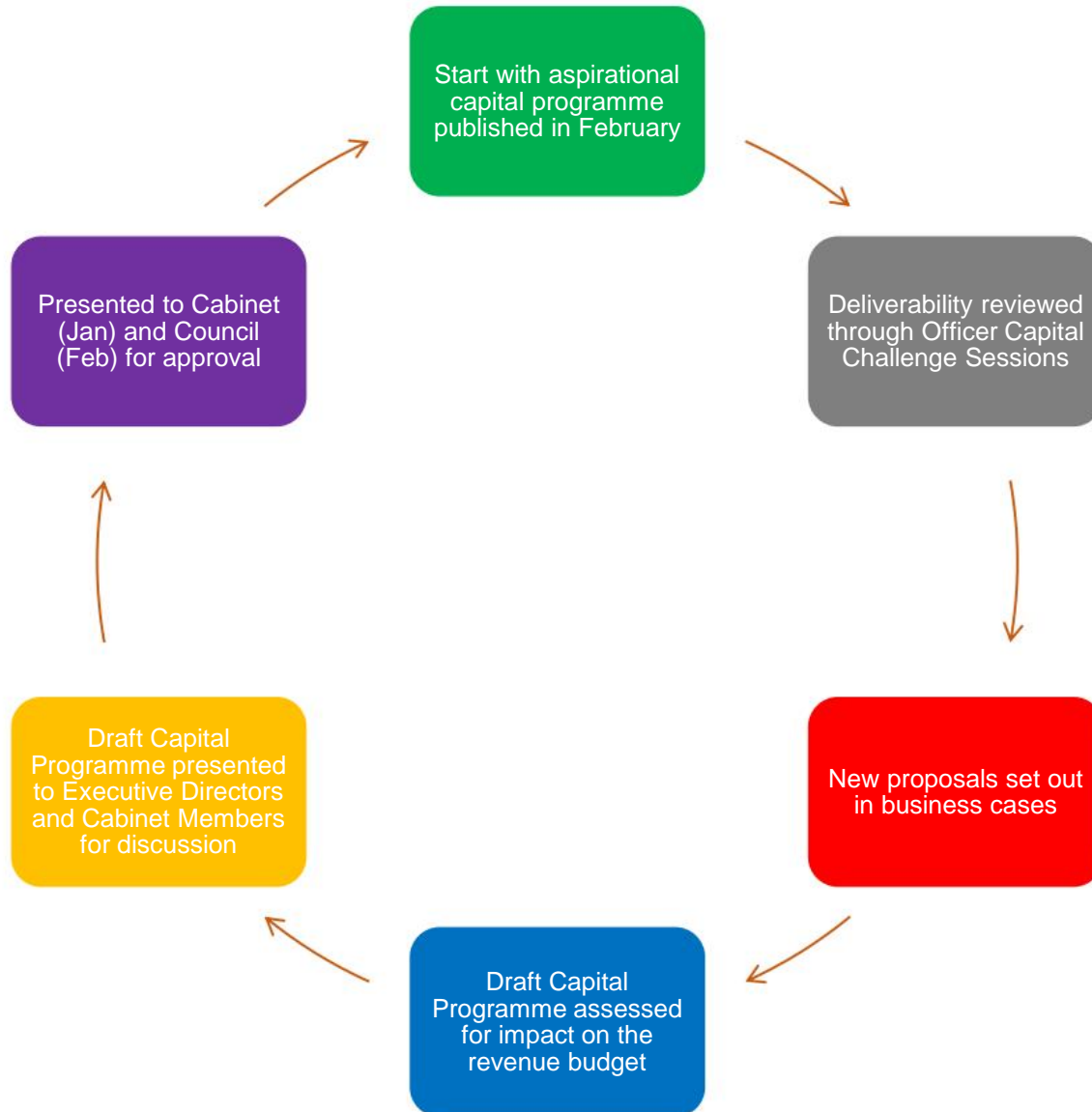
If ECC is not reimbursed for these additional cost pressures, this will reduce our Spending Power.

Adult Social Care White Paper - Published

The paper includes **three objectives** with a focus on personalised care:

1. People have choice, control, and support to live independent lives further
 2. People can access outstanding quality and tailored care and support
 3. People find adult social care fair and accessible.
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- At least **£300m** to integrate **housing** into local health and care strategies
 - At least **£150m** to drive greater adoption of **technology**
 - At least **£500m** so the social care workforce have the right training and qualifications
 - A new **practical support service** to make minor repairs and changes in peoples' homes to help people remain independent and safe in their home, alongside **increasing the upper limit of the Disabilities Facilities Grant** for home adaptations such as stairlifts, wetrooms and home technologies
 - Up to **£25m** to work with the sector to kick start a change in the services provided to support **unpaid carers**
 - **£30m** to help local areas innovate around the support and care they provide in new and different ways
 - At least **£5m** to pilot new ways to help people understand and access the care and support available
 - More than **£70m** to increase the support offer to improve the delivery of care and support services, including assisting local authorities to better plan and develop the support and care options available.

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 2022/23 will be presented at Cabinet in January, which will be an opportunity for Committee to scrutinise.

1. Our budget is based on a set of evidenced based assumptions
2. Once the budget is set, it is monitored on a monthly basis and reported to Cabinet on a quarterly basis
3. We have a good track record of delivery on savings and capital investment proposals
4. Our strategic aims and business planning approach will ensure that our resources are linked to the Council's priorities
5. We are currently considering a number of savings and investment proposals – alongside what we know on our likely funding levels