

2022/23 Financial Overview as at the First Quarter Stage

Corporate Policy and Scrutiny Committee
22nd September 2022

Purpose and key messages

Purpose

1. To provide an overview of the 2022/23 position at the First Quarter Year stage
2. To respond to the Committee on questions around the 2022/23 financial position

Key messages

- **Revenue over spend of £5.1m (0.5%)** predominantly driven by Adult Social Care & Health and Finance, Resources & Corporate Affairs RSSS
- Continued uncertainty – economic environment of inflation quickly rising to a 40 year high, with an expectation this will continue over 10%, a level which will be potentially sustained for an extended period of time.
- Within the forecast position, inflation pressures of £6.4m were identified, impacting Transport providers and fuel costs, energy costs for street lighting and the ECC estate, and Adult Social Care. These have grown significantly since the Q1 report.
- The Council continues to face the impact of Covid, on demand for our broad range of services, as well as with capacity of providers to deliver our requirements. We still face pressures, and continue to provide support to markets, particularly in Adult Social Care with staffing recruitment and retention
- **Capital under spend of £7.9m (2.7%)** against the latest budget of £294m

First Quarter 2022/23

Revenue



Forecast over spend
£5.1m / (0.5%)

Savings



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

Capital



£7.9m under spend vs
budget (**2.7%**)

Key Drivers



Residential,
Nursing and
Reablement

Property
transformation
savings



Fostering/ Children
with Disabilities

Adults Domiciliary



Essex Housing LLP
£11.7m

Education £4m

Highways Major
Schemes £4.8m

Solo placements £1.9m

Highways Maintenance
£1.2m

Financial Impact of Inflation

- Currently within the reported position, **£6.4m** of inflation is identified, and the most significant elements are set out below:
 - ❑ **£1.5m increased energy prices for Streeting Lighting**
 - ❑ **£1.5m increased energy prices across the Council's Estate**
 - ❑ **£1m, due to higher CPI, for In-Lieu of Reablement market**
 - ❑ **£900,000 higher pricing point for the Social Care framework**
 - ❑ **£480,000 due to higher CPI on contractual agreements related to property maintenance contract**
- As part of the Q1 report, £2.5m of this pressure was recommended to be funded from the General Risk reserve, leaving a balance of circa £11.4m to support emerging inflation risks.
- The impact of inflation is being reviewed monthly, to support understanding of the impact of inflation in-year, and on the future year's budget gap.
- Since publication of the Q1 report, a decision to use £4.5m from the General Risk reserve has been taken to support increasing electricity costs. This brings total support to electricity costs to £9.5m in addition to what was originally budgeted for in 2022/23.

Next steps

- Continue to quantify further inflationary risks and pressures as inflation continues to be volatile, and further intelligence is received
- October Budget Statement to Full Council on 11th October
- 2022/23 Half Year report to Cabinet on 18th October

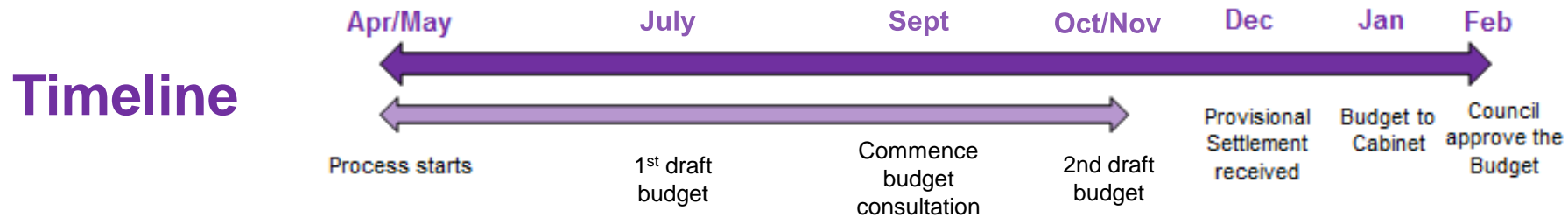
Medium Term Resource Strategy – How we build the budget

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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**

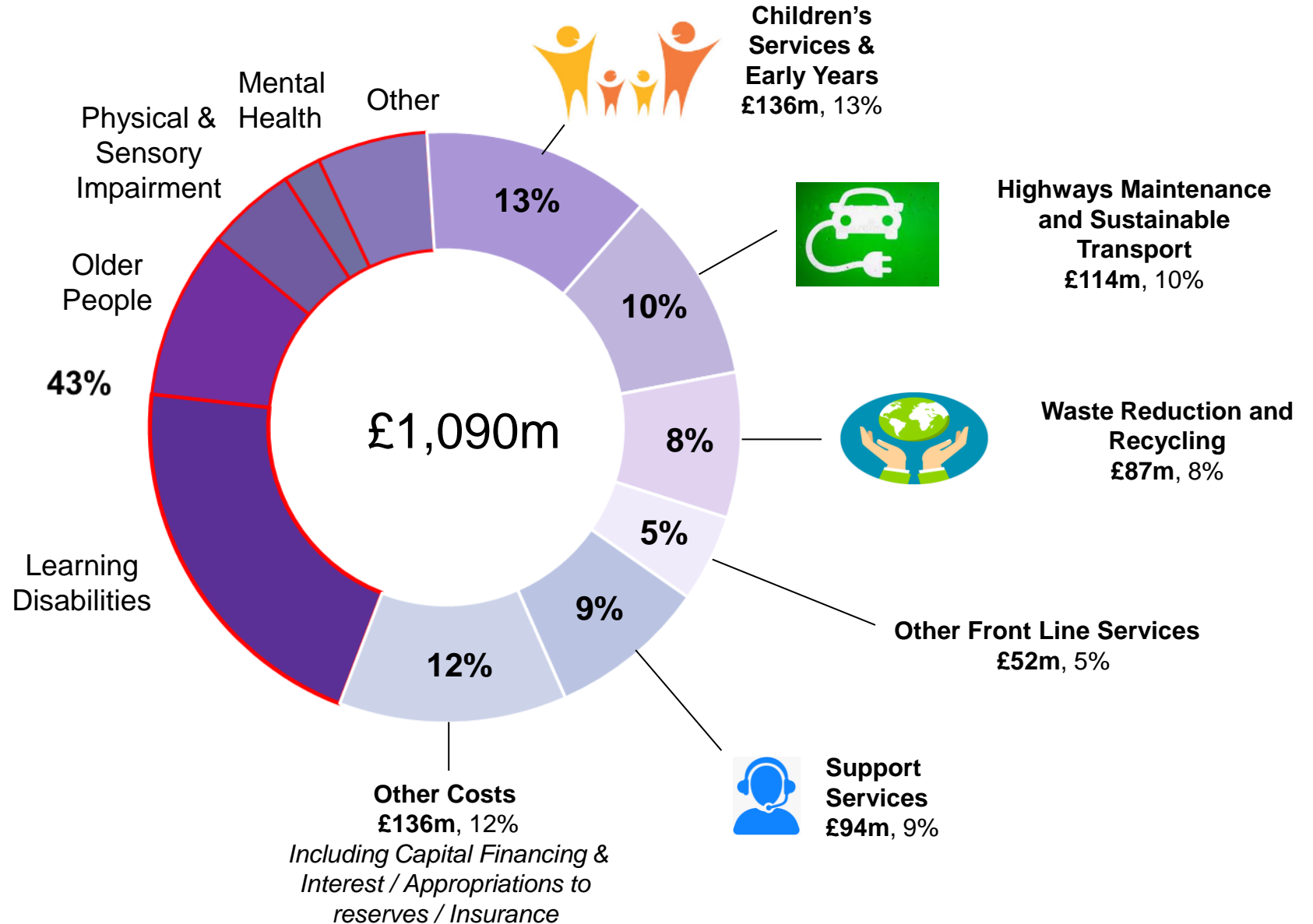


The MTRS produces indicative resource requirements for the next four financial years.

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.

Reminder - The 2022/23 Revenue Budget

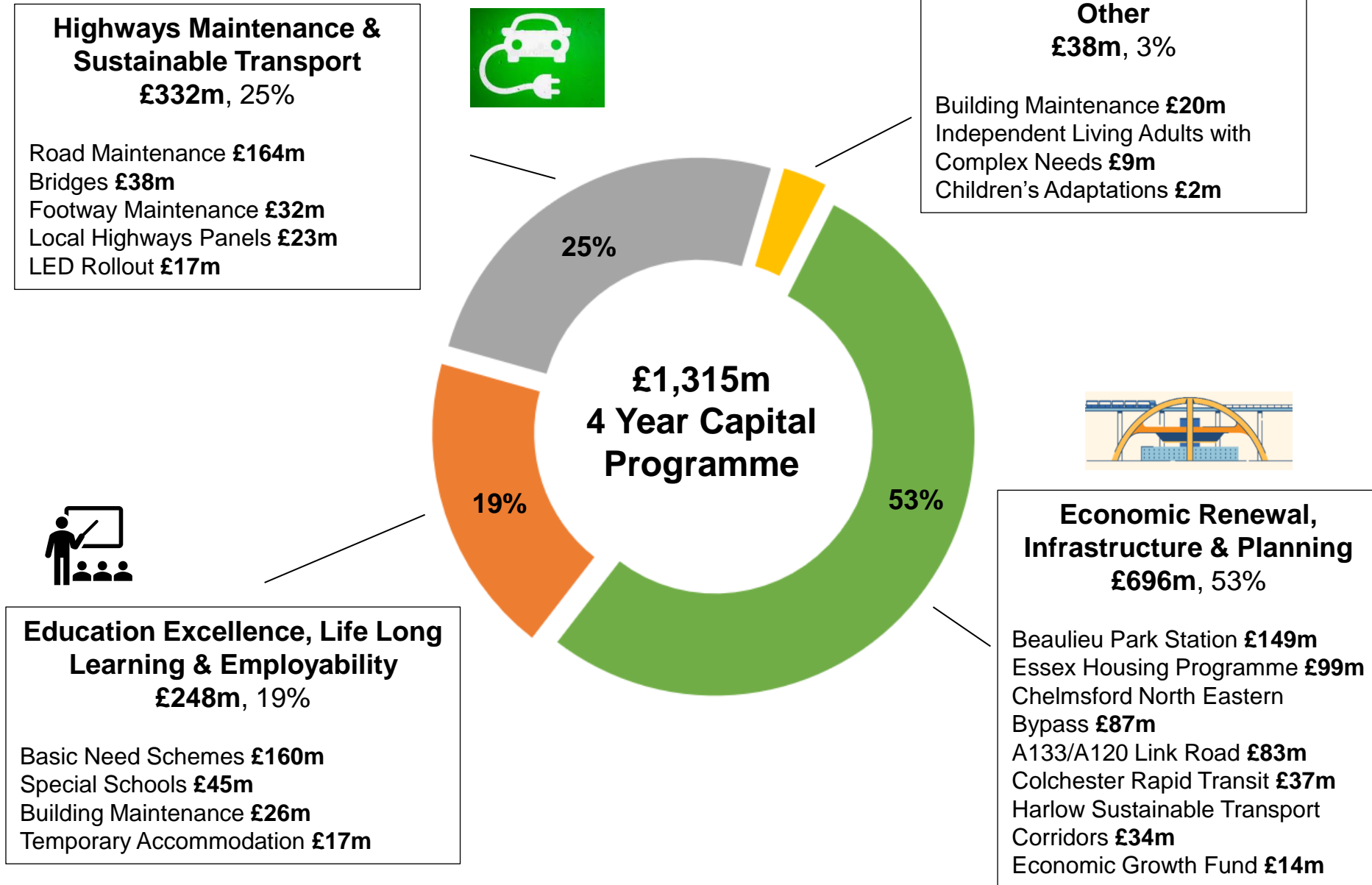
Adults Social Care and Health
£470m, 43%



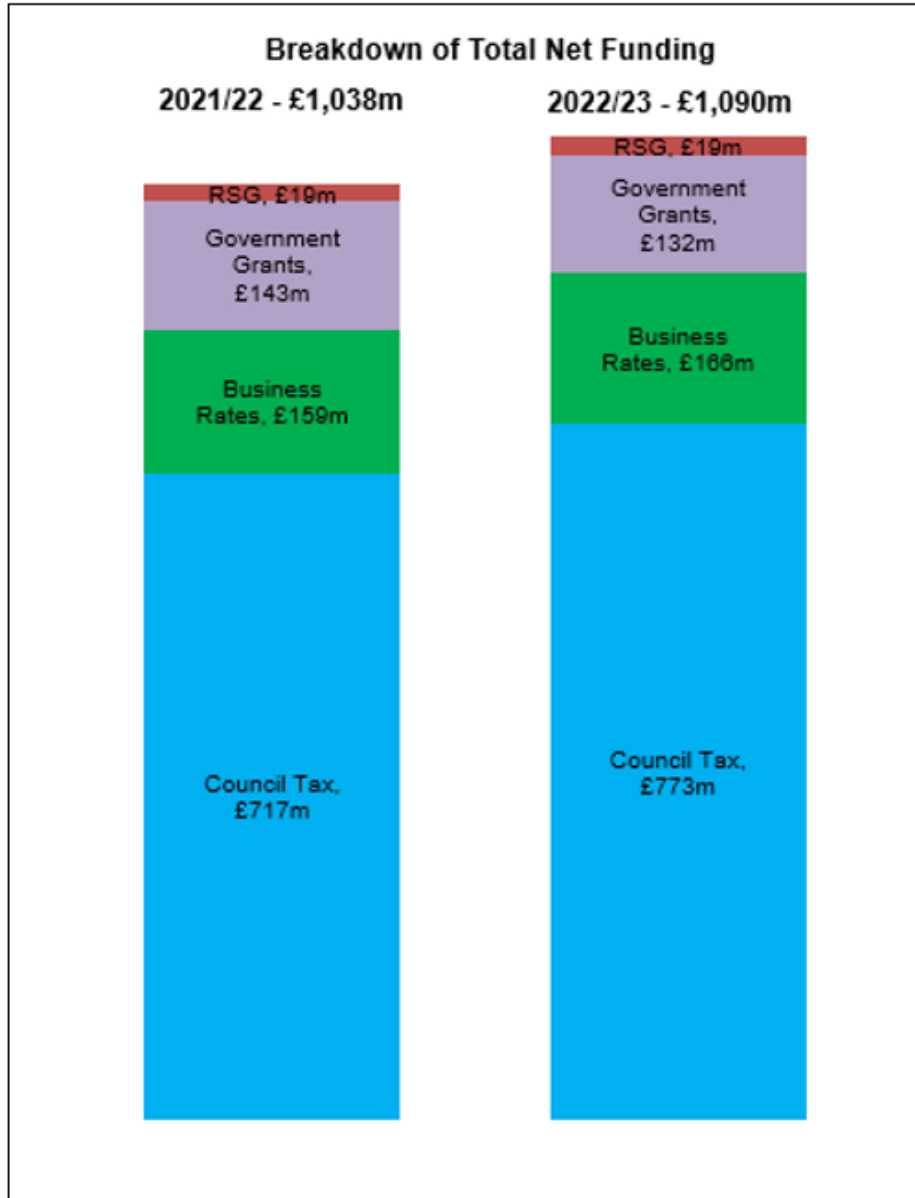
Increase of £52m
or 5% over
2021/22 budget

Savings to be
delivered: £36m

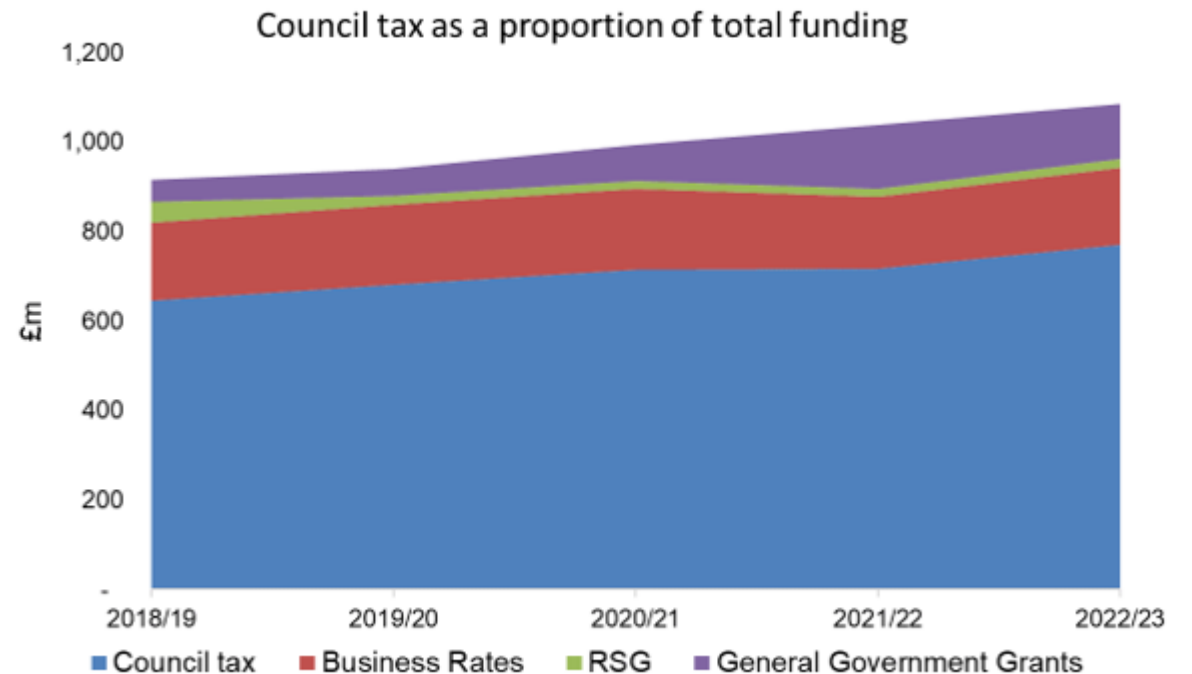
Reminder - Draft 4 Year Capital Programme (2022/23 – 2025/26)



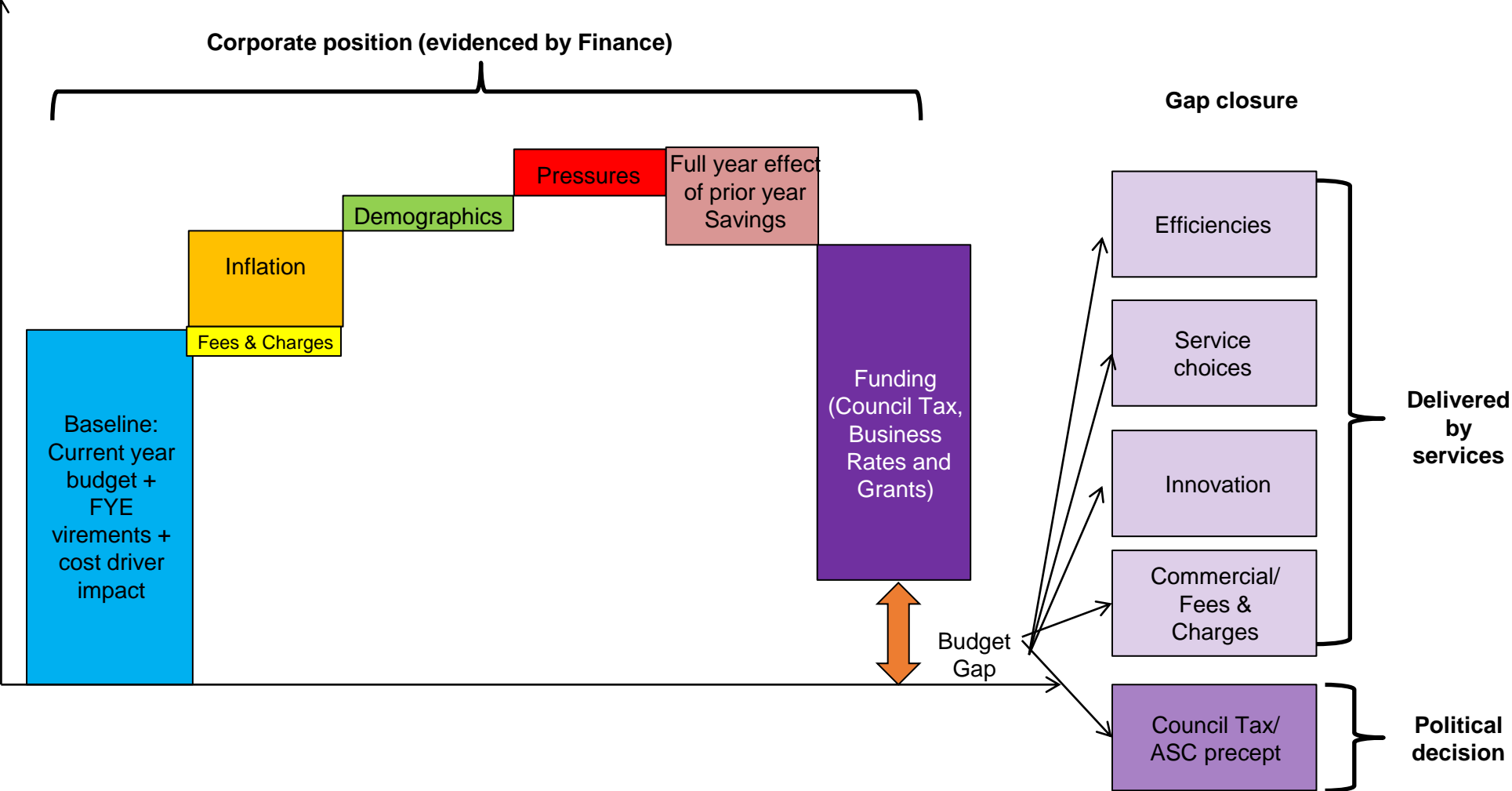
How is the Budget Funded?



Over 86% of the revenue budget is funded through tax, with council tax being the most significant element (71%)



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

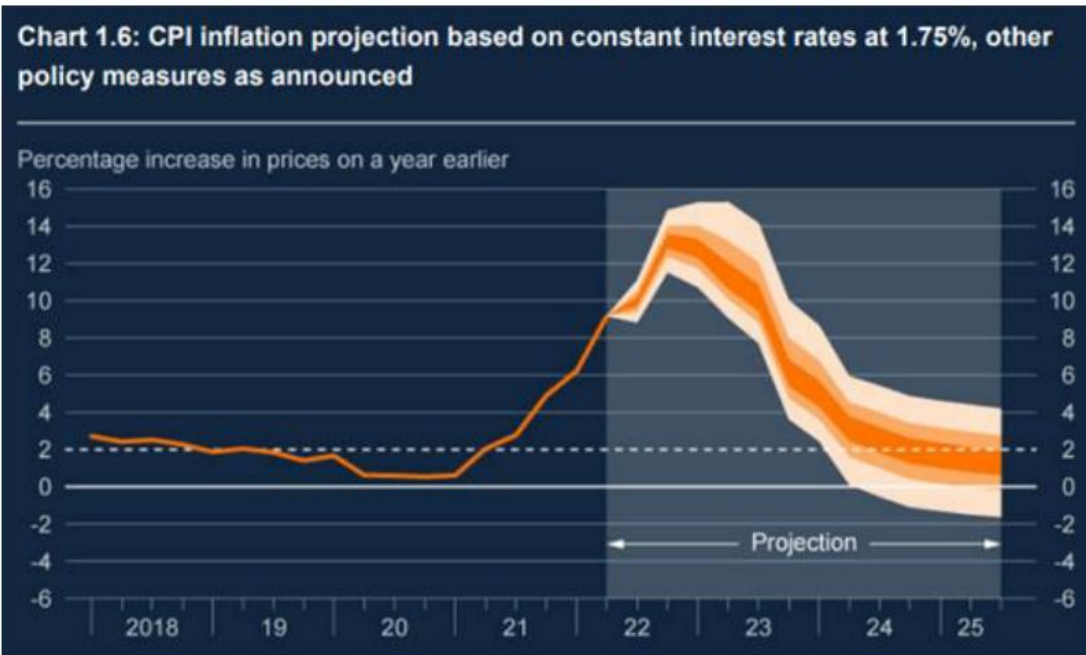
- Business Rates and Council Tax informed by district information
- No increase assumed in Council Tax after 2022/23
- 1% growth in tax base, based on historic intelligence
- Business Rates – inflation uplift

Spending Review in 2021 announced additional funding – but only confirmed for 2022/23.

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

Inflation

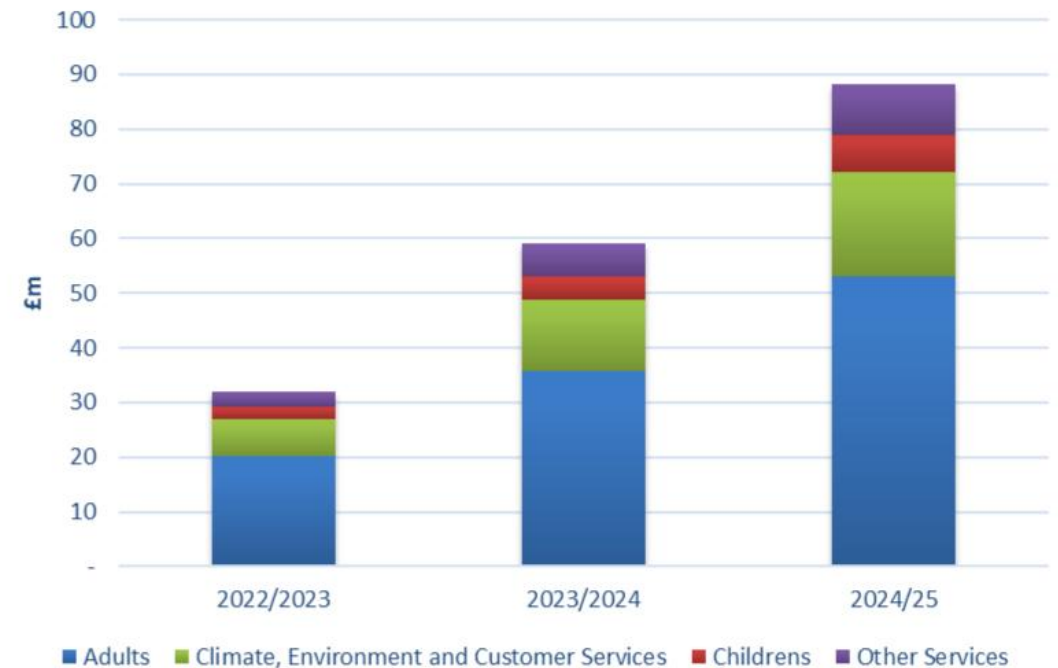
Bank of England projections for inflation have deteriorated throughout the year. Peak inflation now set to be higher with a slower return to BoE target.



The volatile position makes the forecast outturn for 2022/23, and the budget requirement across the MTRS period, difficult to project.

ECC inflation is primarily contract driven – the budget for 2022/23 allows for £32m. By far the largest inflationary pressure is in Adult Social Care.

MTRS Cumulative Inflation



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)

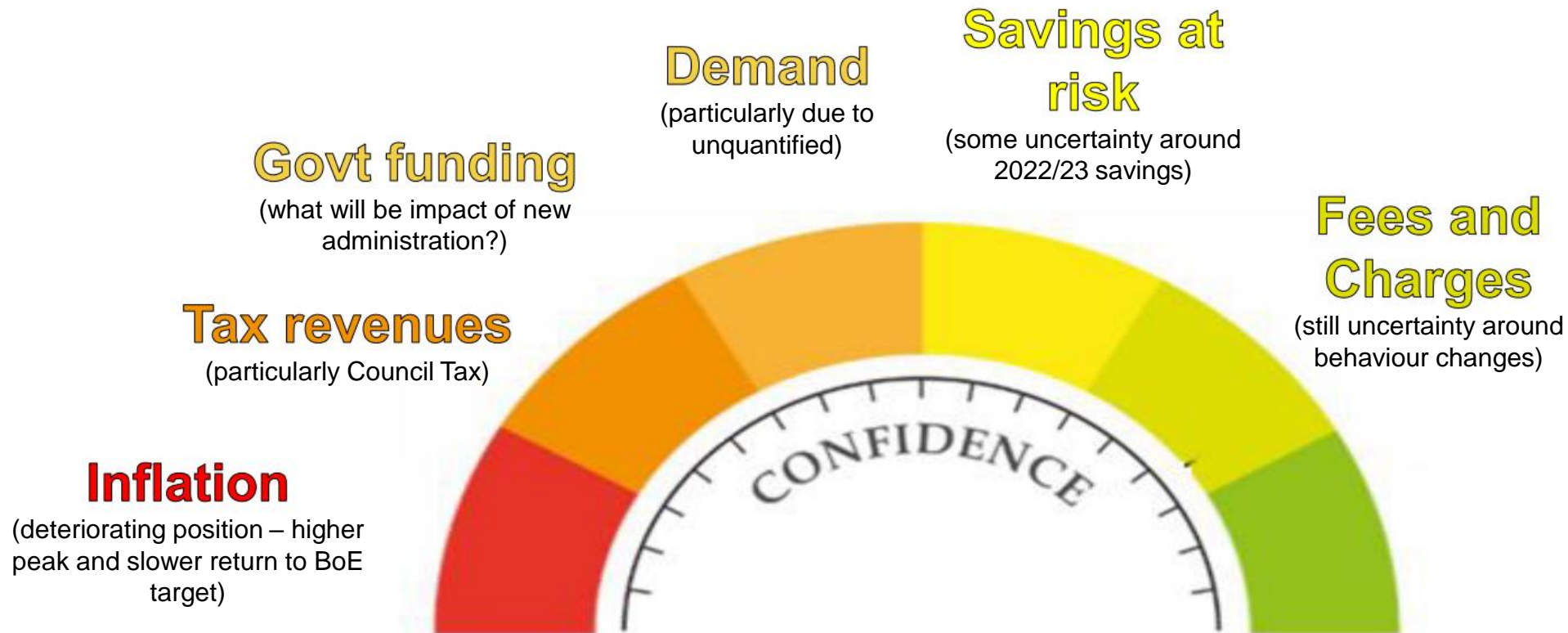
The budget for **business rates income** is based on the estimates supplied by the district councils based on their forecast collection.

Scenario Assumptions

With inflation at a 40 year high and an outlook from the Bank of England that includes a sustained period of high inflation, a recession and rising unemployment, we face an exceptionally high level of uncertainty.

Where possible, scenario factors have been refreshed in our 2023/24 modelling at varying ranges of impact.

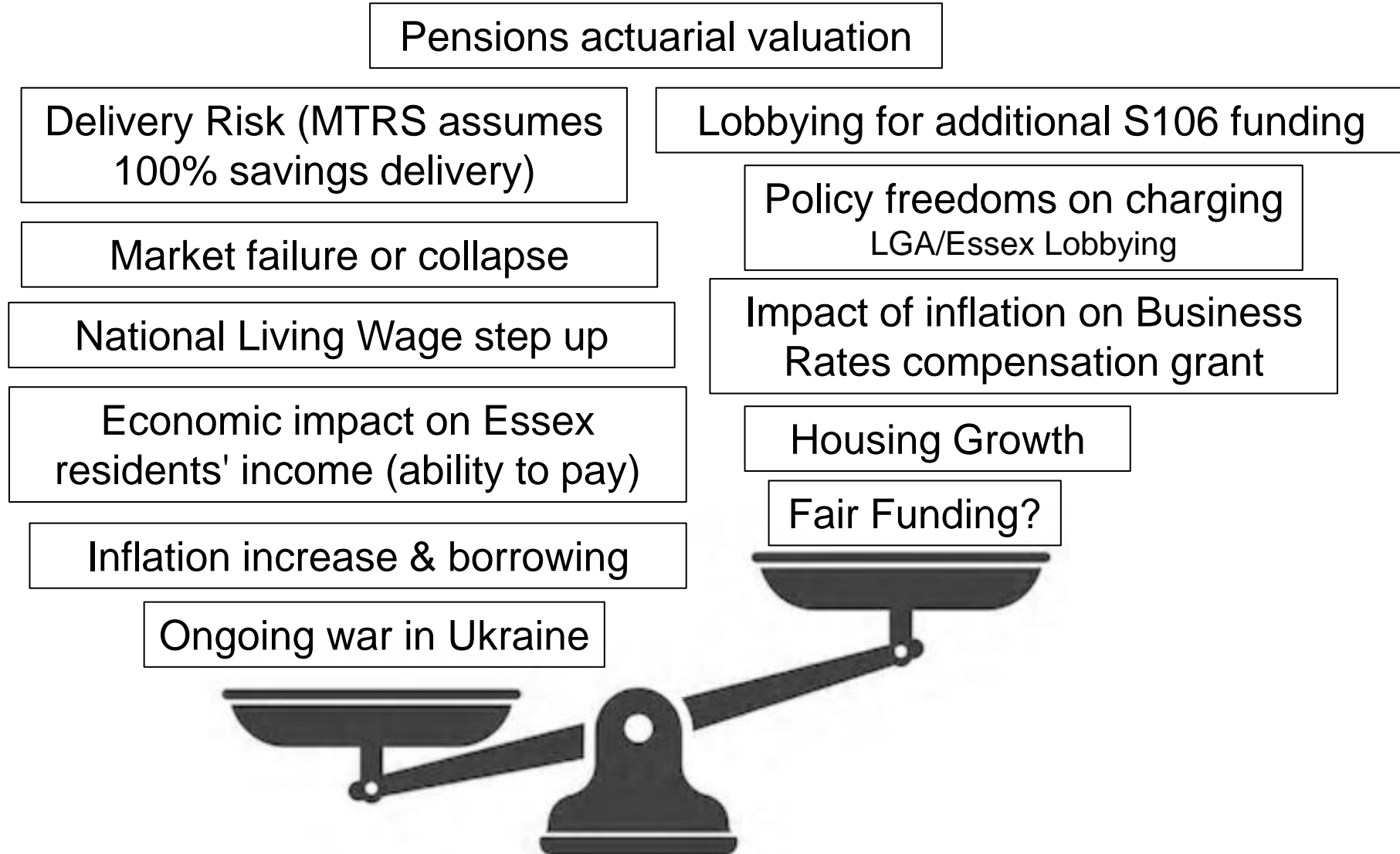
Our current **confidence levels** for key scenarios are set out below.



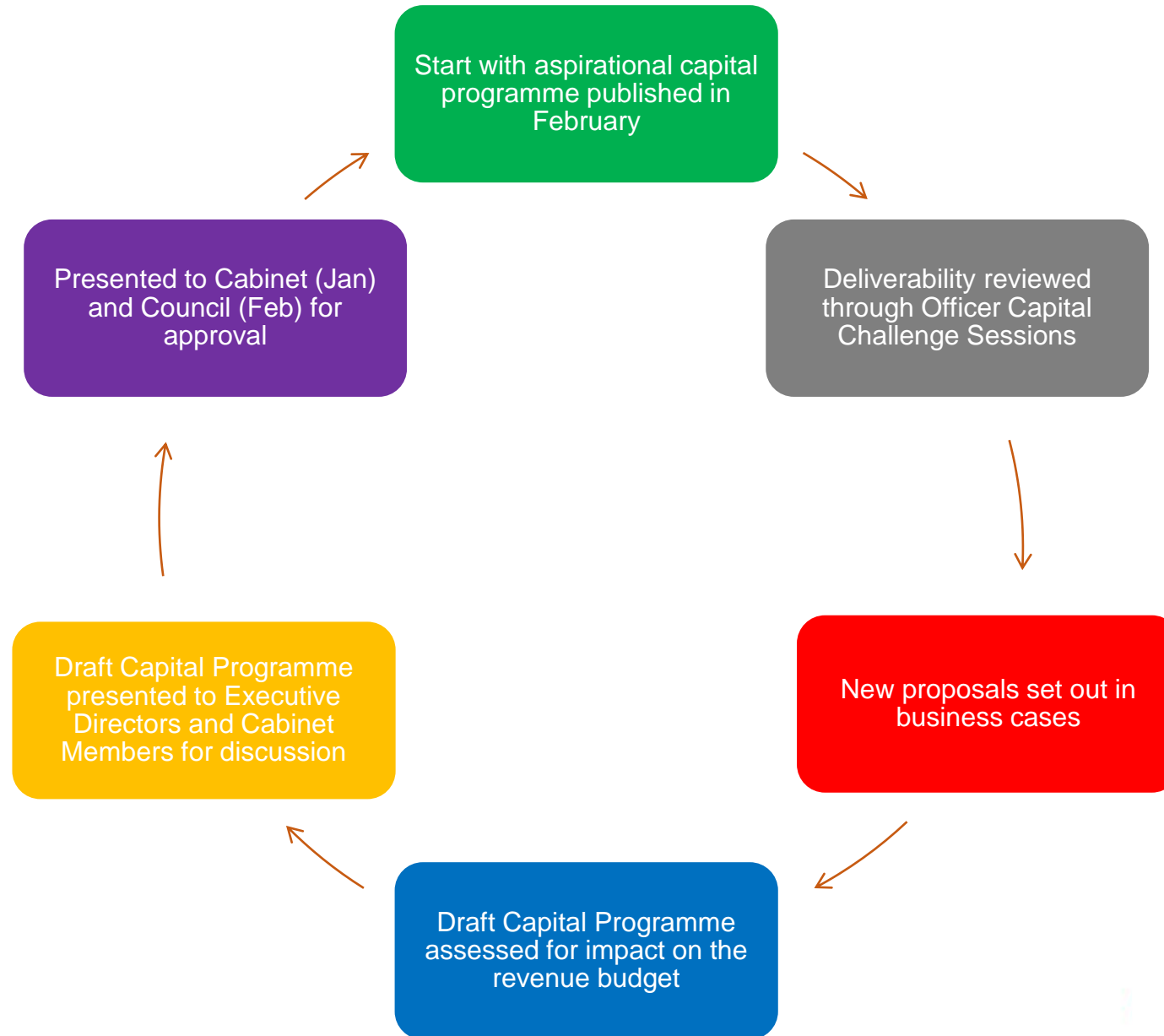
Confidence defined as potential range of £ impact

Managing Uncertainty

A number of uncertain factors will impact our medium term position



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