

## Agenda Item 7

<b>Report title:</b> Organisation Plan and Budget 2021/22 – Part 1: Section 151 Officer Report	
<b>Report author:</b> Nicole Wood, Executive Director for Finance and Technology	
<b>Date:</b> 23 February 2021	<b>For:</b> Discussion
<b>Enquiries to:</b> Nicole Wood, Executive Director for Finance and Technology	
<b>County Divisions affected:</b> 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 a decision on the recommendations on the budget and capital programme.

### 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 cost 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 Final 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 Final 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 31<sup>st</sup> 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 supported 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 550) 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 (£1,037.6m), an increase of £45m, (4.5%) 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 £53m (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 £45m 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**

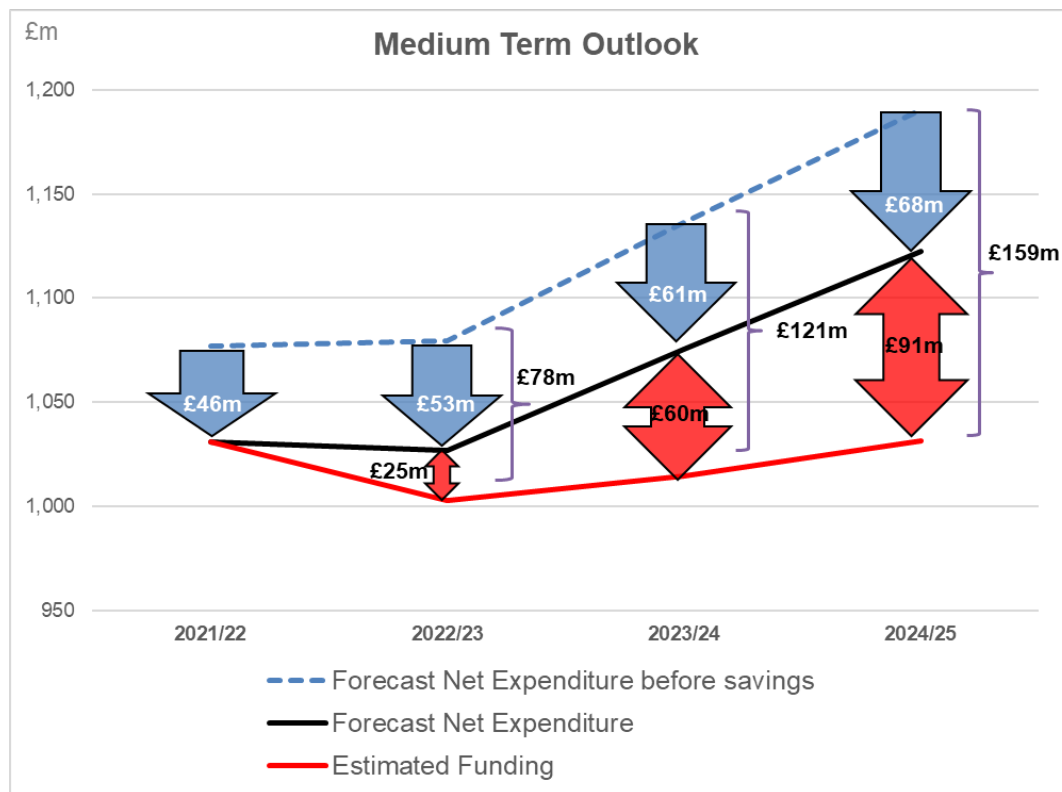
- 7.1 The taxbase for 2021/22 is 535,092 Band D equivalents, which is a 0.02% reduction from 2020/21. Whilst there has been 1% growth in housing across the county, there has been an increase in households claiming Local Council Tax Support (LCTS) due to a reduction in their household income. The reduction to the taxbase to account for the discount awarded to these households is 3.8% higher than compared to 2020/21. Additionally, there is a forecast reduction in the collection rate of 0.6%.
- 7.2 As part of 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 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 92) 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 blocks; 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 £76m to reserves in 2021/22. In 2021/22 the largest contributions are to the COVID Equalisation Reserve (£29m) and Collection Fund Risk Reserve (£12m, or circa 2% tax base). The

latter is primarily 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 £74m (a reduction of £70m). 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 approved the creation of 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.
  - Adult Social Care 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, 64% (£29m) have a high level of confidence, with 28% medium risk and 8% 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 84% 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.

**Agenda item 7**

<b>Report title:</b> Organisation Plan and Budget 2021/22 – Part 2: Budget and Plan	
<b>Report to:</b> Council	
<b>Report author:</b> Councillor Christopher Whitbread, Cabinet Member for Finance and Councillor Dick Madden, Cabinet Member for Performance, Business Planning and Partnerships	
<b>Date:</b> 23 February 2021	<b>For:</b> Decision
<b>Enquiries to:</b> Nicole Wood, Executive Director for Finance and Technology email: <a href="mailto:nicole.wood@essex.gov.uk">nicole.wood@essex.gov.uk</a> or Margaret Lee, Executive Director for Corporate and Customer Services email: <a href="mailto:Margaret.lee@essex.gov.uk">Margaret.lee@essex.gov.uk</a>	
<b>County Divisions affected:</b> All Essex	

**1 Purpose of the Report**

- 1.1 The report presents information to enable Full Council to consider and approve the Organisation Plan and Budget 2021/22 including the revenue budget, capital programme, financial strategy and capital strategy. In doing so, the report of the Section 151 (S151) Officer on the robustness of the 2021/22 Budget and adequacy of reserves, included elsewhere on this agenda, should be considered.
- 1.2 The Organisation Plan publishes the Council's achievements in 2020/21 and plans for 2021/22, highlighting those actions that the Council will focus on. It also includes a section on performance detailing how the Council will measure performance against the organisational aims and the outcomes the Council expects to see following the implementation of those actions.
- 1.3 The statutory process for setting the budget is that a budget is recommended to the Council made by or on behalf of the Leader. On 19 January 2021 the Cabinet made recommendations to the Council but the Cabinet Member for Finance was authorised to amend those recommendations in the light of any revised information, for example relating to council tax bases or actual council tax receipts collected by billing authorities.
- 1.4 The recommendations from the Cabinet, as amended by the Cabinet Member for Finance, are set out in section 2. The changes to the recommended budget since the Cabinet meeting are explained in section 3, but the proposed overall precept level and therefore the proposed level of council tax are the same as originally recommended by the Cabinet. The recommended changes to the organisation plan simply add in performance information in annex 2 of Appendix A to this report.
- 1.5 In addition, the statutory deadlines for the final information from the billing authorities was 31 January 2021. This report incorporates information that was

available at the time that the Council agenda was required to be published. At the time of publishing, the information from all districts other than Harlow District Council was available.

- 1.6 Any further revisions to the recommendations resulting from the confirmed district information will be circulated electronically to all members as early as possible and will also be posted on the council's website.

## 2 Decision Areas and Recommendations

### Organisation Plan and Revenue Budget

- 2.1 That the Organisation Plan be approved in the form appended to this report (Appendix A).
- 2.2 The net cost of services to be set at **£1,037.6 million (m)** for 2021/22 – Appendix A (page 37).
- 2.3 The net revenue budget requirement to be set at **£894.8m** (net cost of services less general government grants) for 2021/22 – Appendix A (page 41).
- 2.4 The total council tax funding requirement be set at **£717.5m** for 2021/22 – Appendix A (page 41).
- 2.5 That Essex County Council's element of the council tax be increased by 1.5% for the adult social care precept, using the flexibility set out by government to raise a precept of up to 3% for the 'adult social care precept'. Therefore the Essex County Council element of the council tax charge for a Band D property in 2021/22 will be **£1,340.91**. A full list of bands is as follows:

	2020/21	2021/22
Council Tax Band	£	£
Band A	880.74	893.94
Band B	1,027.53	1,042.93
Band C	1,174.32	1,191.92
Band D	<b>1,321.11</b>	<b>1,340.91</b>
Band E	1,614.69	1,638.89
Band F	1,908.27	1,936.87
Band G	2,201.85	2,234.85
Band H	2,642.22	2,681.82

- 2.6 Full Council approve the Essex County Council element of the council tax for each category of dwelling and the precepts on each of the council tax billing authorities for 2021/22, together with the final tax base, as set out in the table below:

Billing Authority	2021/22 Final Tax Base Band D Equivalent	2021/22 Gross Precept £000
Basildon	60,840	81,581
Braintree	53,721	72,035
Brentwood	33,250	44,586
Castle Point	30,965	41,521
Chelmsford	68,580	91,959
Colchester	62,776	84,178
Epping Forest	54,019	72,434
Harlow	27,386	36,722
Maldon	24,959	33,468
Rochford	32,052	42,979
Tendring	48,436	64,948
Uttlesford	38,108	51,100
<b>Total for ECC</b>	<b>535,092</b>	<b>717,510</b>

- 2.7 Agree that, subject to the funding position prevailing next year, the Council intends to raise council tax in 2022/23 to use the remaining 1.5% adult social care precept in 2022/23.
- 2.8 That the proposed total schools budget be set at **£567.4m** for 2021/22 which will be funded by the Dedicated Schools Grant, Universal Free School Meals Grant, Pupil Premium Grant, PE and Sports Premium Grant, Sixth Form Grant and the COVID-19 Catch-up Grant. The majority of this will be passed through to maintained schools.
- 2.9 That the underlying balance on the General Balance be set at **£65.5m** as at 1 April 2021 (Appendix A, Annex 1, page 68).
- 2.10 That the capital payments guideline be set at **£290.3m** for 2021/22.
- 2.11 That for the purposes of section 52ZB of the Local Government Finance Act 1992 the Council formally determines that the increase in council tax is not such as to trigger a referendum.

### Strategic Performance Measures

- 2.12 That the strategic performance measures as set out in Annex 2 (Appendix A) be approved, noting that Annex 2 was not in the information submitted to Cabinet.

## **Capital Strategy**

- 2.13 That the 2021/22 to 2024/25 Prudential Indicators and limits, together with updated limits for 2020/21 as set out in Annexes 3A and 3B of the Capital Strategy (Appendix A) be approved.
- 2.14 That the Treasury Management Strategy for 2021/22 be approved, comprising:
- a. Borrowing strategy, as set out in Annex 3 of the Capital Strategy (Appendix A, Annex 3, page 85).
  - b. Treasury management investments strategy, as set out in Annex 3 and Annex 3D of the Capital Strategy (Appendix A, Annex 3, page 92).
  - c. Indicative strategy for commercial investment activities, as set out in Annex 3 of the Capital Strategy (Appendix A, Annex 3, page 95).
- 2.15 That the policy for making a prudent level of revenue provision for the repayment of debt, (the Minimum Revenue Provision policy) as set out in Annex 3C of the Capital Strategy (Appendix A, Annex 3, page 103), be approved.

## **Pay Policy Statement**

- 2.16 The Pay Policy Statement for 2021/22 as set out in Appendix C be approved.

## **Flexible Use of Capital Receipts Strategy 2021/22**

- 2.17 The Flexible Use of Capital Receipts Strategy for 2021/22 (Appendix E) be approved, using the short term discretion from government to use £1.3m of capital receipts to fund transformation projects that save money or reduce costs.

## **3 Background to the changes since the Cabinet Meeting**

- 3.1 The changes to the recommendations since the Cabinet meeting have been made to reflect updated information from the billing authorities. They are required to provide a final estimate of the council tax base, the deficit/surplus from the prior year, the performance of the local discount scheme and the Non-Domestic Rates (NNDR) income on 31 January 2021. The recommendations in this report reflect the information received at the time that the Council agenda was required to be published. There may be further changes to this information. The recommendations made by Cabinet were based upon estimates of these figures, before receipt of the final submissions from the billing authorities. In addition, there have been changes in the amount of income anticipated to be received from central government.
- 3.2 This information has now been submitted to the County Council and as a result there have been the following changes:



- Council Tax income has reduced by **£1.6m** following receipt of revised figures from three authorities
- A reduction to the Council Tax Collection Fund Surplus of **£1m**
- The anticipated income from non domestic rates (NNDR) has been increased by **£2.3m**
- NNDR collection fund deficit has reduced by **£750,000**
- Increase in Benefit of Business Rate Pooling of **£1.3m**
- Increase in General Government grants of **£5.1m**

- 3.3 Harlow Council has not submitted a final NNDR return and have agreed an extension to the deadline granted by the Ministry of Housing, Communities and Local Government (MHCLG). It is not clear as to the materiality of the impact of receiving this return. Should this not be received in time to be dealt with at the meeting, the budgetary impact will be reported and dealt with in the First Quarter Report to Cabinet in July.
- 3.4 The net impact of the changes in 3.2 is an increase in the Council's funding of **£6.9m** over that used by the Cabinet to calculate the budget recommendations. Of this additional fund, **£5.1m** will be appropriated to the Adult Social Care Risk Reserve and **£1.8m** will be appropriated to the Collection Fund Risk Reserve. There is no change to the proposed increase in council tax to that recommended by the Cabinet at its meeting in January 2021.
- 3.5 The table below shows the recommendations made by the Cabinet and the revised recommendation to Council made by the Cabinet Member responsible for Finance:

	Cabinet Jan-21 £m	Council Feb-21 £m	Movement £m
Council Tax Requirement	(719.1)	(717.5)	1.6
Revenue Support Grant	(18.7)	(18.7)	-
Non-Domestic Rates	(176.3)	(180.0)	(3.7)
Non-Domestic Rates Collection Fund Deficit	21.9	21.1	(0.8)
General Government Grants	(137.7)	(142.8)	(5.1)
Council Tax Collection Fund (Surplus)/ Deficit	(0.8)	0.3	1.1
<b>Total Funding</b>	<b>(1,030.7)</b>	<b>(1,037.6)</b>	<b>(6.9)</b>
Net cost of services	1,030.7	1,037.6	6.9
<b>Total Expenditure</b>	<b>1,030.7</b>	<b>1,037.6</b>	<b>6.9</b>
Surplus / (Deficit)	-	-	-

- 3.6 A correction has been made to the Organisation Plan Restricted Funds reserve table (page 70) to remove the assumed usage of the Waste Reserve in 2021/22 (this only impacts the assumed closing balance of the reserve and has no impact on the revenue budget recommended by Cabinet).

- 3.7 Annex 2 “Strategic Performance Measures” did not feature in the information submitted to Cabinet as content was still being finalised. The proposals have since been signed off by the Political Leadership Team.

#### **4 Statement of the Executive Director for Finance and Technology (S151 Officer)**

- 4.1 The Executive Director for Finance and Technology is the Chief Finance Officer appointed under S151 of the Local Government Act 1972 and is also the Chief Financial Officer for regulatory and statutory purposes.
- 4.2 The report by the Executive Director for Finance and Technology (S151 officer) on the robustness of the estimates, reserves and capital strategy is set out in the separate report elsewhere on this agenda.

#### **5 Other Issues**

- 5.1 The findings of the Equality Impact Assessment (EIA) carried out are included in Appendix B of this report.

#### **6 Relevance to the Council’s Organisation Strategy and Plan**

- 6.1 The Organisation Plan for 2021/22 covers the action the Council will take next year to contribute to our Organisation Strategy, alongside the Budget. The Organisation Plan is set out in Appendix A.

#### **7 Internal and External Consultation**

- 7.1 All Executive Directors and Directors have been involved in the preparation of the Organisation Plan and the Budget.
- 7.2 Through budget consultation meetings the Council engages with representatives from the unions.
- 7.3 A budget consultation was undertaken during September to November 2020, for 6 weeks. It was open to the public and promoted through social media, print media, business, voluntary and charity sector networks.
- 7.4 Six ‘small group’ workshops with Essex residents were undertaken online, allowing for deeper discussions and full conversations.
- 7.5 There were 238 responses to the consultation. The full report on the budget consultation is shown in Appendix D. The key messages from respondents to the consultation are that:

- The majority of participants (58%) felt well informed about public services.
- Residents felt the most important issues facing Essex today are:
  - Coronavirus (36%)
  - Environment and Climate Change (25%)
  - Economy and the economic situation (20%)
- There are 4 areas where residents have the most concern from an individual perspective
  - physical health and fitness (45%)
  - the local environment and pollution (44%)
  - climate change (41%)
  - mental health (34%)
- Over two thirds (68%) of participants think that their household or business will be affected by the budget setting decisions taken for 2021/22
- Residents have a clear view on the approaches that ECC should take in managing financial pressures. There is strongest support for strategies that seek to:
  - prioritise spending to protect the most vulnerable and those without choices
  - help build self-reliance and reduce dependency on public services; and
  - streamline services so that they can deliver the same outcomes.

The consultation suggests that participants are unlikely to support reducing or stopping services wholesale to protect others.

- Over half of participants felt ECC should consider increases in council tax under the following circumstances:
  - to protect services for the most vulnerable (68%)
  - when opportunities to streamline services have been exhausted (59%)
  - when the only alternative is to stop delivering some services (55%)
- Residents want to see key services protected in the face of financial pressure. Nearly 90% of participants identified care and support for vulnerable older people and those with mental health needs, and over half (53%) the maintenance of roads, footways and bridges as services which should be protected.

7.6 Taken together, these results suggest that Essex residents recognise the continuing financial pressures facing the Council, the impact of Coronavirus and the need to prioritise and make efficiencies. They also recognise the need to

balance spending on protecting the most vulnerable and on providing good universal services that most residents use.

- 7.7 In response to the key messages, the Council is investing an additional £33m in portfolio budgets for 2021/22 (£45m including other operating costs). The most significant part of the budget is spent on social care services (54% of gross expenditure, excluding dedicated schools grant (DSG)). The Council is also continuing to invest in the maintenance of roads and footways, children's services and waste. This budget will not result in proposals for the Council to reduce or stop services.
- 7.8 A briefing on the budget for members of the Corporate Policy and Scrutiny Committee was held on 26 January 2021.

## **8 Legal Implications (Monitoring Officer)**

- 8.1 In each financial year the Council must make its budget calculation in accordance with sections 42A and 42B of the Local Government Finance Act 1992. In particular, it must calculate the total of:
- The expenditure the authority estimates it will incur in the year in performing its functions and will charge to a revenue account for the year
  - Such allowance as the authority estimates will be appropriate for contingencies in relation to expenditure to be charged to a revenue account for the year
  - The financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure
  - Such financial reserves as are sufficient to meet any estimated revenue deficit for previous financial years which has not already been provided for.
- 8.2 Those calculations are then used to determine the council tax requirement for the year.
- 8.3 The Council is required to set a balanced budget and in considering the budget the Council must have regard to the advice of its Chief Finance Officer appointed under section 151 of the Local Government Act 1972.
- 8.4 The Council must issue any precept or precepts in accordance with section 40 of the Local Government Finance Act 1992. The section prescribes what must be included in the issue of the precept. It must be issued before 1 March in the financial year preceding the year for which it is issued but is not invalid merely because it is issued on or after that date.

- 8.5 Under section 25 of the Local Government Act 2003, the Chief Financial Officer (section 151 officer) is required to report to the authority on the robustness of the estimates made for the purposes of the calculations required to be made by the Council. These are the estimates which the Cabinet is required to determine and submit to Full Council and are contained within this report. The Chief Finance Officer is also required to report on the level of reserves.
- 8.6 In deciding its Capital Programme for the year, the Council must have regard to the 'Prudential Code' established by and under the Local Government Act 2003. This is addressed in the report.
- 8.7 The budget makes provision on the basis that a number of changes to Council services which are under consideration may be made. The budget does not itself authorise any changes to services and does not assume that changes will be made. Any changes to services will need to be the subject of appropriate consideration by the Cabinet Member or the Cabinet following, where appropriate, consultation and a full report setting out options for change, the impact of the proposed changes on service users, including in particular the impact on different equality groups. Where a decision is made not to implement any changes then budgetary adjustments may need to be made but the Council is confident that whilst savings over the 2021/22 budget are assumed, each can be implemented in a number of ways, thus no particular changes are assumed.
- 8.8 The setting of the budget is a function reserved to the Full Council, but the Cabinet is required to make recommendations to Full Council on the various calculations the authority is required to make. Once the budget is agreed by Full Council, the Cabinet cannot make any decisions which conflict with that budget, although virements and in year changes may be made in accordance with the Council's Constitution and Financial Regulations which have been adopted by the Council. Similarly, any decision made by the Cabinet or by an officer exercising executive functions must be made in accordance with the policies, plans and strategies agreed by Full Council, including the Council's Organisation Strategy.
- 8.9 Section 106 of the Local Government Finance Act 1992 restricts any member of the Council from voting on the budget or council tax requirement if they owe any amount of council tax to any local authority which has been outstanding for more than two months. If this applies to a member and they attend a meeting at which the council tax requirement is to be set they must declare this fact and they cannot vote. It is an offence to vote or to fail to make this declaration. A letter has been sent to all members to advise them on this
- 8.10 Section 52ZB of the Local Government Finance Act 1992 requires the Council, when setting council tax, to determine whether or not the increase is 'excessive'. An increase is excessive unless it is within parameters determined by the Secretary of State. If an increase is 'excessive' it can only be implemented if supported by a referendum.

- 8.11 The principles for 2021/22 published by the Secretary of State on 4 February 2021 state that for the Council any increase of 2% or more (excluding 'social care precept') would be defined by the then Secretary of State as 'excessive'. The recommendations in this report would not see any increase in the council tax other than the social care precept.
- 8.12 In addition, social care authorities are permitted to levy a 'social care precept' of up to a further 3% without the overall increase being considered 'excessive'. There is no legal requirement for the money raised to be used for adult social care services, but the Secretary of State has indicated that he will ask local authorities how they have spent the money. If an authority is unable to demonstrate usage for social care purposes, he may restrict that authority's ability to raise council tax in future years. The draft principles only cover the year 2021/22 but the covering letter states that the government intends the 3% social care premium to cover a two year period; in other words if the Council raises a 3% 'social care precept' this year, it may not be able to further increase the 'social care precept' next year. The recommendations in this report would see the Council raising 1.5% this year and signalling an intention to raise the remaining 1.5% in 2022/23. There is, however, no guarantee that the Council will be able to do this - because it depends on the principles set for 2022/23 - and the Council clearly cannot bind itself as to the future budgetary position.

## **9 Staffing and Other Resource Implications**

- 9.1 An element of reorganisation and reshaping will be required to support efficiency gains in some operational areas. Staffing implications which may arise as a result of operational plans flowing from this budget will be addressed under their specific implementation plans.

## **10 Equality Impact Assessment**

- 10.1 Section 149 of the Equality Act 2010 creates the public sector equality duty which requires that when the Council makes decisions it must have regard to the need to:
- (a) Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Act
  - (b) Advance equality of opportunity between people who share a protected characteristic and those who do not.
  - (c) Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
- 10.2 The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, gender and sexual orientation. In addition, marital status is a relevant protected characteristic for 9.1(a).

- 10.3 The equality implications have been assessed as part of the budget setting process as detailed in Appendix B. Equality impact assessments will be carried out before any decision is taken to change any services in response to the budget or otherwise - please see paragraphs 5.1 and 8.7 of this report for further information.

## **11 List of Appendices**

Appendix A – Essex County Council Organisation Plan 2021/22

Appendix B – Equality Impact Assessment (Organisation Plan and Budget)

Appendix C – Pay Policy Statement

Appendix D – Budget Consultation Report

Appendix E – Flexible Use of Capital Receipts Strategy 2021/22