

13 January 2021		ITEM: 10
Decision: 110544		
Cabinet		
Draft General Fund Budget and Medium Term Financial Strategy Update		
Wards and communities affected: All	Key Decision: Key	
Report of: Councillor Shane Hebb, Deputy Leader and Cabinet Member for Finance and Transformation		
Accountable Assistant Director: Jonathan Wilson, AD Finance, Corporate Finance		
Accountable Director: Sean Clark, Corporate Director of Finance, Governance & Property		
This report is public		

Executive Summary

This report presents the updated Medium Term Financial Strategy (MTFS) and draft budget proposals for 2021/22.

This follows analysis of the support provided by the government from the Spending Review 2020.

The 2021/22 budget addresses both the ongoing impacts of the Covid-19 pandemic, the wider cost pressures arising from demand pressures and the decision to pause the investment strategy.

Following HM Government's Spending Review 2020, the underlying budget pressure has now been mitigated through a combination of identified savings, the anticipated but partial use of reserves (built up from the investment approach) and capital flexibilities as well as additional Covid-19 funding from the government. This also assumes that the full level of council tax increase, including the Adult Social Care precept, is agreed by the Council.

Officers had previously reported that the approach for 2021/22 was through a series of savings and one off interventions. Members should note that this results in underlying base pressures being carried forward into 2022/23 and 2023/24. Whilst

significant savings have been identified for these latter two years, the deferment of pressures from 2021/22 means that the remaining gaps stand at £14.838m and £10.511m in 2022/23 and 2023/24 respectively.. This will require significant further action by Members to move the Council back to a financially sustainable position.

The council has a statutory duty to set a balanced budget and the use of some of the council's reserves is required to achieve this for 2021/22, as has been expected since the outset of the COVID pandemic.

The key consideration is the proposed council tax increase of 4.99%, which reflects the guidance issued by Central Government as part of the Spending Review announcements made on 23 November 2020 that comprises the general element of 1.99% with a further 3% Adult Social Care precept to fund increasing cost pressures within the service.

1. Recommendations:

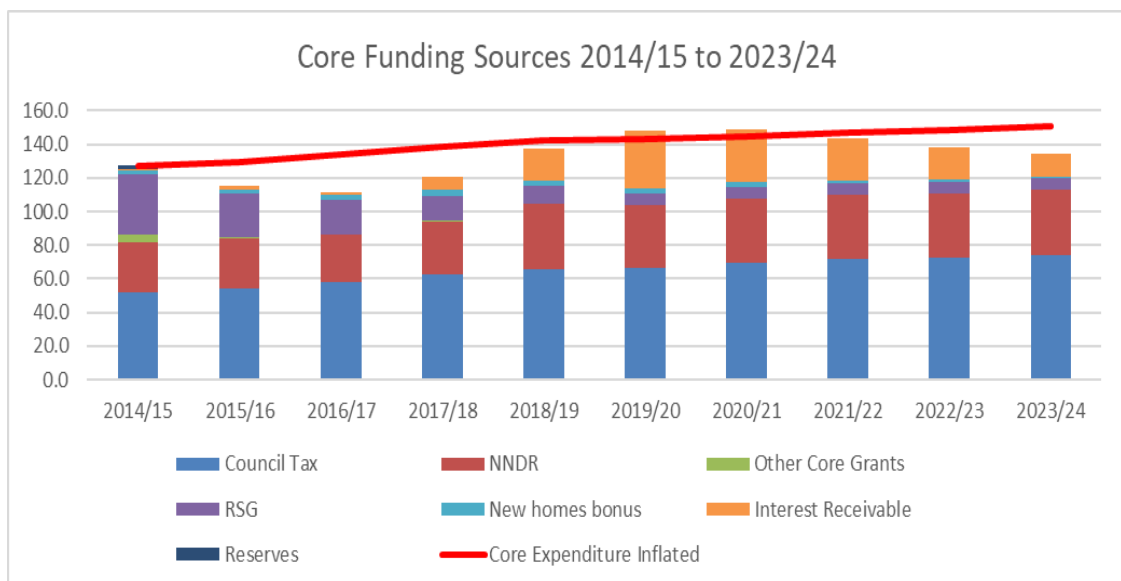
- 1.1 That Cabinet note the proposed updates to the Medium Term Financial Strategy and the remaining deficits in future years;**
- 1.2 That Cabinet note the updated Medium Term Financial Strategy forms the basis of the 2021/22 Budget;**
- 1.3 That Cabinet supports the proposed council tax increase of 1.99%;**
- 1.4 That Cabinet supports a 3% Adult Social Care precept increase; and**
- 1.5 That Cabinet comment on the draft budget proposals within this report to inform the consultation with Corporate Overview and Scrutiny Committee with the final budget proposals to be presented to Cabinet on 10 Feb 2021.**

2. Introduction & Background

- 2.1. Before considering future years, it is important to recognise any ongoing impacts from the current year 2020/21. In recent months, Cabinet have received two update reports, the most recent reporting a net in-year budget pressure of £2.672m. The main areas of risk continue to be within Adults' Social Care, Children's Services, Homelessness and the wider Treasury position caused by the pause to the Investment Strategy, specifically around new investment activity. The position continues to be assessed and further Covid-19 funding from MHCLG is expected to contribute to closing the remaining gap to deliver the budget in 2020/21.
- 2.2. Members have been presented with regular financial updates throughout the current financial year and the MTFS consistently showed a deficit of £33.673m over the three year period 2021/22 to 2023/24, with an initial £19.318m deficit in 2021/22. This was based on a number of assumptions

including the financial impact of the Covid-19 pandemic and a pause to the investment strategy, notably new investment activity, and the start of phasing out of investment income as bonds mature.

- 2.3. For context, the graph below illustrates the position over several years, in regards to a reducing Revenue Support Grant position, and how the investment approach has been used to provide time to reform services at a pace far more considered than otherwise would have been the case. The approach undertaken in 2017, supported unanimously by council, sought to provide that headroom. The additional funding generated by the strategy enabled the council to go above and beyond that which is normally expected of a council. It has meant that the council has been in a position to: put £1m towards new police officers; allocate £670,000 to tackle anti-social behaviour; £500,000 to improve mental health support in local schools; spend an additional £1.5m on visible environmental improvements over and above the traditional level of services; and increase reserves to improve resilience – as well as reform services over a medium/long-term period. Members should note that whilst council tax and NNDR income has increased over the period set out in the table, spending requirements have also increased over the same time-period, notably owing to growth and inflationary pressures.
- 2.4. As the conditions for investments are not as they have been previously, the council has now paused entering into any new investments. As such, the MTFs in this report reflects a position where no new investments occur and show the need for an accelerated set of service reforms to reduce base line spending.



- 2.5. This report reflects the funding announced by the Chancellor as part of the one-year spending review in November 2020 with detailed allocations to Thurrock Council confirmed on 17 December 2020. The Spending Review

only provided clarity over funding for the 2021/22 financial year and consequently there remains uncertainty over the funding in the subsequent two years. After reflecting the announced changes and a wider assessment of the underlying budget pressures, the budget deficit across the future three years is now £42.461m. This follows the assumption that maturing investments will not be replaced and is pending a Council decision on the use of the announced Adult Social Care precept.

- 2.6. The 2021/22 underlying budget deficit position is now £19.288m. However, there is now certainty on balancing the 2021/22 position through a combination of £8.136m of sustainable funding changes and £11.152m of short term measures. The sustainable changes include the use of the full Adult Social Care precept and a further £5.656m identified from the savings review undertaken which reflect a combination of departmental efficiencies, a temporary suspension on recruitment to all non-essential vacant posts and a review of staff allowances. The balance will be met from the use of some reserves allocations, flexibilities relating to capital receipts, to support transformation and growth, and additional grant funding.
- 2.7. While this Covid-19 funding addresses the pressures arising in-year, growth is still required in future years within the MTFs where it is considered there is a need to meet ongoing demand, especially in both adults' and children's social care. Central Government have now announced further one-off support that has been included in the temporary funding measures addressing the budget gap in 2021/22.

3.0 Draft 2021/22 Budget and Future Forecasts

- 3.1 The full MTFs is included in Appendix 1. The overall financial position over the next 3 years shows a deficit of £42.461m. This has arisen primarily from the projected impact of Covid-19, a pause to the investment approach and wider demand-led and inflationary pressures. This is then translated from the MTFs to an indicative directorate budget level for 2021/22 in Appendix 2.
- 3.2 The provisional Local Government Finance settlement for 2021/22 includes a calculation of Core Spending Power. Members should acknowledge that this includes an assumption that councils will maximise council tax receipts and this this spending power will form the base when government sets out the next Comprehensive Spending Review – financial support to local government – in 2021. The main points to note are:
- The central government assessment of Council spending power assumes a general Council tax increase of 1.99% is applied by all authorities;

- For upper tier and unitary authorities, the central government assessment of Council spending power assumes a further Adult Social Care precept of 3% is also agreed to meet the pressures in the sector in 2021/22;
- The settlement confirms that an inflationary uplift will not be applied to the Business Rates Multiplier in 2021/22. Local authorities will be compensated for this lost income by central government for the calculated amount;
- The Social Care grant has increased by £0.8m;
- The Revenue Support Grant has increased by £0.080m; and
- A Covid-19 general support grant totalling £4.853m will be available for 2021/22 only.

The MTFS in Appendix 1 differentiates between underlying budget pressures and those related to the ongoing impacts of Covid-19. This results in core deficits of £12.936m and £6.353m respectively for 2021/22, a total of £19.288m.

3.3 The impact of Covid-19 has resulted in the following key movements:

- Local Funding – the projected movement in the financial funding from Council Tax and Business Rates equates to £2.242m. This includes assumptions on the brought forward collection fund deficits and increases in the number of properties eligible under the local council tax scheme from the current year. This remains subject to the wider economic impacts of the pandemic, and projections have been revised down through the year, mainly due to furlough schemes providing a degree of income security for residents affected by the pandemic; and
- Additional ongoing costs and loss of income – additional pressures and further income losses total £4.111m.

3.4 As previously reported, the Council's investment strategy has been paused with a projected impact of £18.927m over the life of the 3 year MTFS. This includes both cash and capital investments and hence the associated targets have been removed pending further consideration. No provision has been made to replace maturing investments. Also reflected is the increased cost of PWLB borrowing which has been used to replace short term funding in 2020/21 and includes an expectation that this will continue across the life of the MTFS, albeit that is a lesser figure when comparing the impact of pausing the approach.

- 3.5 The impact in 2021/22 has been assessed and initial actions have been identified to reduce the projected financial gap from £19.288m to a balanced position as set out above.
- 3.6 Indicative service specific savings have been identified in the following key areas in consultation with relevant Portfolio Holders:

Directorate	Proposal	2021/22 Saving £000's
Environment, Highways & Counter Fraud	Savings from initial service review.	287
Environment, Highways & Counter Fraud	New Counter Fraud income	450
Environment, Highways & Counter Fraud	Efficiencies	19
Council-wide	Suspension to recruitment for non-essential posts	4,000
Council-wide	Reduction in postage/printing/stationery	100
Council-wide	Review of staff allowances above baseline contract conditions (Phase 2 Pay Review)	800
	Total	5,656

- 3.7 Officers from relevant departments continue to work closely to ensure targets are achievable and within the required timescales. Proposed changes to staff allowances were part of the new collective agreement that supported the pay review and are subject to ongoing discussions with Trade Unions.
- 3.8 Proposed savings in relation to the recruitment freeze will be considered as part of the detailed budget setting process, with front line delivery and service impact being considered.
- 3.9 Spending Review updates: There remains uncertainty over the wider economic impacts of the pandemic and the level of further financial support available to local authorities via central government. This continues to be monitored and changes to the MTFs will be made to reflect the updated assessment of this position.

4.0 Council Tax and Future Funding

- 4.1 Members will be aware that Thurrock Council has the lowest council tax in Essex and one of the lowest of all unitary authorities throughout the country. For example, residents in Thurrock Band D properties pay circa £100 per annum less than residents in Band D properties in Southend-on-Sea and circa £265 less than residents in Band D properties in neighbouring Basildon.

Officers' advice is clear that council tax increases are essential in 2021/22 to ensure that the council can continue to fund the delivery of core services. Whilst this has always been the advice, maximising council tax increases is now even more important considering both the impact of Covid-19 and the pause to the Investment Strategy.

- 4.2 Whilst the Adult Social Care precept is required to provide much needed additional funding, the amount raised by Thurrock Council will be comparatively lower than the majority of top tier authorities as the Council has not maximised council tax increases up to the level indicated by Central Government in previous years.
- 4.3 It is now critical to provide this additional financial resilience in future years to mitigate the identified budget shortfalls currently identified. This recommendation will be reflected in the Corporate Director of Finance, Governance & Property's Section 25 statement and is a key consideration for Members at the council meeting on 24 February 2021.
- 4.4 Corporate Overview and Scrutiny Committee considered a report on the Local Council Tax Scheme (LCTS) at their meeting on 8 September 2020 that set out the council's intention of going out to consult on changes to the scheme for 2021. Officers, in consultation with the Portfolio Holder for Finance, made the decision not to consult on changes due to the challenges and uncertainty that Covid-19 has created, namely: the impact of any additional government support to both LCTS and Universal Credit claimants; the ability to carry out a meaningful consultation when responders cannot be clear of all contributing factors; and a wide-spread approach to not making changes at this time that would add to uncertainty for claimants. As such, the council will be asked to endorse the existing scheme.
- 4.5 The budget deficit for 2022/23 and 2023/24 total £25.349m. The interim measures taken have provided the additional time required to implement the further actions and reforms to services, so as to reduce the underlying base budget and create a sustainable MTFS.
- 4.6 The MTFS now reflects all known and confirmed funding from central government with regards to 2021/22. There is no certainty beyond the 2021/22 funding settlement and further action should only be based on the only realistic assumptions that can be made for the subsequent 2 years. This includes inflationary increases to core funding streams and the costs they fund as well as the removal of the Covid-19 specific grants. There is no indication of additional funding beyond this and the wider economic position suggests this will remain the position.

- 4.7 Officers will continue to develop the savings plans required to mitigate the budget gap in 2022/23 in the first instance. Members should not underestimate the difficulties the council now faces in delivering the required savings and the lead in time required – as such, decisions will be required early in the new year.
- 4.8 In the context of the impact of Covid-19 on public finances, Local Authorities will be required to contribute to the wider sustainability of public finances. It is clear that further significant decisions will be required early in 2021/22 to deliver a sustainable MTFs, Cabinet have provided direction to retain existing commitments on funding police services, and to preserve, as best as possible under constrained budget challenges, the award-winning successes of Clean-It, Cut-It, Fill-It.

Remaining Considerations

- 4.9 The methodology for the allocation of funding to local government bodies remains under review. The Fair Funding review is expected to progress in 2021/22 but there is no revised timeline to date. As part of this it remains an assumption that separately identified ring fenced grants, such as the Public Health Grant, will be absorbed into mainstream funding.
- 4.10 Similarly, the proposed changes to the current business rates system and the move to 75% retention are now likely to be delayed until 2022/23 at the earliest. As such, the council is only able to assume inflationary uplifts to the business rates precept in the MTFs. As previously noted the introduction of this system will potentially increase the underlying level of financial risk faced by the council.
- 4.11 Work is ongoing in support of the Thames Freeport bid, which may have an impact on NNDR levels into the future.
- 4.12 The Cabinet have allocated £1m from a specific reserve to fund the Stage 3 Local Plan effort and are due to receive a paper on TRL and a multiple-approach housing delivery strategy. All such work leads to permanent baseline increases.
- 4.13 The following table highlights the specific financial impact of a 1% increase on Council tax per annum/per household:

Band	Band Charge	Properties		Average Net Charge	Average 1% Increase p.a.
		No.	%		
A	£1,035.48	7,482	10.9	£630.68	£6.31
B	£1,208.06	13,703	19.	£937.75	£9.38
C	£1,380.64	27,240	39.6	£1,191.52	£11.92
D	£1,553.22	12,538	18.2	£1,428.09	£14.28
E	£1,898.38	4,760	6.9	£1,802.39	£18.02
F	£2,243.54	2,246	3.3	£2,182.16	£21.82
G	£2,588.70	830	1.2	£2,535.36	£25.35
H	£3,106.44	49	0.1	£2,178.66	£21.79
TOTALS		68,848	100.0	£1,186.96	£11.87

4.14 For over 70% of residents, each additional 1% increase in council tax equates to an average of 20 pence per week or £10.33 per annum. The additional funding raised will be applied to a wide range of services, including Children's and Adults' social care that work with the most vulnerable members of the community.

4.15 Having considered all of the above, Cabinet is asked to recommend a 1.99% general council tax increase and a 3% Adult Social Care increase.

5.0 Reserves Position

5.1 Members will be aware that, like many other authorities, the partial use of reserves was anticipated soon after the impacts (direct and indirect) of Covid-19 became clearer.

5.2 Members will be aware from previous reports that the council's reserves position has become far more resilient since 2016, as a direct result of the investment approach. In 2016, the council's General Fund Balance sat at £8m. Comparing that to now, the General Fund Balance sits at £11m, a Social Care Reserve of £1.5m has been created to help manage market volatility during the pandemic, a Financial Resilience Reserve of £6m has been built up and a General Reserve of £5.5m exists to support the council against pressures. Both of these latter reserves have been built to provide additional security from any financial fluctuations the council may experience and were built from investment income and deferred Member priorities, which were paused when the pandemic took hold, and allocated for use to manage the pressures which were forecast to come as a result of the pandemic.

- 5.3 The Covid-19 pandemic has led to direct and indirect pressures and fluctuations. As such, a partial use of reserves is forecast for the 2021/22 budget - an allocation of £3.3m is to be used from the General Reserve, thus maintaining levels within the General Fund Balance, Financial Resilience Reserve and Social Care Reserve.
- 5.4 Members should note that the use of reserves enables a one-off stimulus. They cannot be used for sustainable spending needs and, as such, Members are reminded of the need to reform services for a sustainable medium/long term cost base.

6.0 Issues, Options and Analysis of Options

- 6.1 This report sets out the changes from the current 2020/21 budget that are proposed for 2021/22. The impact on service delivery, particularly as a result of the proposed recruitment freeze, will be closely monitored throughout the year to ensure essential front line services are provided to the required level.
- 6.2 A maximum council tax increase is recommended by officers as the Government's Core Spending Power calculations and Comprehensive Spending Review will assume that the council has maximised resources from its ability to raise funding locally. The Government will not subsidise any income foregone, thus any increase applied which is lower than the maximum level will continue to impact on the council's resources in all future years.
- 6.3 The report also sets out the identified deficits over the three-year period of the MTFS. Members and officers will continue to work to identify further mitigating actions and carry out service review processes across a number of areas.

7.0 Reasons for Recommendation

- 7.1 The Council has a statutory requirement to set a balanced budget annually and to review the adequacy of its reserves. This report sets out a balanced budget for 2021/22.

8.0 Consultation (including Overview and Scrutiny, if applicable)

- 8.1 The proposals set out within this report will be considered by the Corporate Overview and Scrutiny Committee on 21 January 2021.

9.0 Impact on corporate policies, priorities, performance and community impact

9.1 There are increases to frontline services where pressures have been identified in the current year that will help the council to deliver its statutory services to the most vulnerable members of the community.

10.0 Implications

10.1 Financial

Implications verified by: **Sean Clark**
**Corporate Director of Finance,
Governance & Property**

The financial implications are set out in the body of the report and the appendices. The report sets out a balanced budget for 2021/22 on the basis that proposed funding decisions and actions to deliver savings are supported by Members.

Members should note that the actions set out do not address the underlying budgets issues in subsequent years. Further savings will be required in addition to those identified to date. Given the significant funding gaps that remain it is essential the Council supports the further measures required to create a sustainable MTFS and in a timely fashion that recognises the lead in time that significant savings require.

10.2 Legal

Implications verified by: **Ian Hunt**
**Assistant Director of Law and
Governance and Monitoring Officer**

There are no specific legal implications set out in the report. There are statutory requirements of the Council's Section 151 Officer in relation to setting a balanced budget. The Local Government Finance Act 1988 (Section 114) prescribes that the responsible financial officer "must make a report if he considers that a decision has been made or is about to be made involving expenditure which is unlawful or which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency to the authority". This includes an unbalanced budget.

10.3 **Diversity and Equality**

Implications verified by: **Natalie Smith**

Strategic Lead - Community Development and Equalities

There are no specific diversity and equalities implications as part of this report. A comprehensive Community and Equality Impact Assessment (CEIA) will be completed for any specific savings proposals developed to address future savings requirements and informed by consultation outcomes to feed into final decision making. The cumulative impact will also be closely monitored and reported to Members.

10.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder, and Impact on Looked After Children)

The council's current investments continue to contribute towards the green agenda through supporting renewable energy schemes across the UK. Part of the budget surplus had previously been allocated to supporting climate change but, with the budget pressures the council now faces, this, along with other such allocations, has been centralised back into a general reserve to support the budget in this year and next.

11. **Background papers used in preparing the report** (including their location on the Council's website or identification whether any are exempt or protected by copyright):

There are various working papers retained within the finance and service sections.

12. **Appendices to the report**

Appendix 1 - Medium Term Financial Strategy

Appendix 2 – Indicative Service Budget impact

Report Author

Sean Clark

Corporate Director of Finance, Governance and Property

Appendix 1 - Medium Term Financial Strategy

Narrative	2021/22			2022/23	2023/24
	£000's			£000's	£000's
	<i>Non Covid</i>	<i>Covid</i>	<i>Total</i>		
Council Tax Position	(1,301)	2,191	890	(1,081)	(1,500)
Business Rates Position	(395)	51	(345)	(51)	(665)
Government Resources Position	202	0	202	797	784
Net Additional (Reduction) in resources	(1,495)	2,242	746	(335)	(1,381)
Inflation and other increases	5,714	0	5,714	4,515	4,665
Treasury	6,758	0	6,758	7,221	4,948
Corporate Growth	1,959	3,022	4,981	2,314	2,314
Commercial Income	0	1,089	1,089	(1,089)	0
Internal Position	14,431	4,111	18,542	12,961	11,927
Core Budget Deficit before intervention	12,936	6,353	19,288	12,626	10,546
Savings Departmental	(756)	0	(756)	(3,341)	(1,635)
General Staffing	(4,800)	0	(4,800)	(100)	(2,000)
Cross Cutting	(100)	0	(100)	(1,250)	(200)
Wider Funding	0	0	0	(250)	(200)
Internal Core Budget Savings	(5,656)	0	(5,656)	(4,941)	(4,035)
Core Budget Deficit Position	7,280	6,353	13,632	7,685	6,511
Additional Core Budget Savings					
Adult Social Care Precept 3%	(980)	(1,500)	(2,480)	0	0
11. Other funding (not affecting baseline)					
Utilisation of Capital Receipts	(3,000)	0	(3,000)	3,000	0
Use of reserves 2021/22	(3,300)	0	(3,300)	3,300	0
Capital receipts 2022/23	0	0	0	(2,000)	2,000
Use of reserves 2022/23	0	0	0	(2,000)	2,000
Covid Grant	0	(4,853)	(4,853)	4,853	0
	(6,300)	(4,853)	(11,153)	7,153	4,000
Overall Budget Working Total	0	0	0	14,838	10,511

Directorate	2020/21 Revised budget	Council Tax charge 2%	Council Tax Social Care precept 3%	Business Rates Precept	Social Care Grant	Inflation	Treasury & Central Financing	Social Care Growth	Savings	Income loss contingency	Other Grants	Capital receipts	Use of reserves	Indicative Base Budget 2021/22
Adults, Housing and Health	43,513	0	0	0	0	2	0	2,500	-10	0	0	0	0	46,005
Central Financing	-118,030	-1,653	-2,480	-500	0	0	3,800	0	0	0	-200	0	0	-119,064
Children's Services	40,648	0	0	0	-800	2	0	1,814	-7	0	0	0	0	41,657
Commercial Services	988	0	0	0	0	0	0	0	-250	0	0	0	0	738
Corporate Costs	-1,202	0	0	0	0	5,534	100	0	-4,550	1,320	-5,084	-3,000	-3,300	-10,184
Environment & Highways and Counter Fraud	30,714	0	0	0	0	759	0	0	-765	0	0	0	0	30,708
Finance, Governance and Property	17,672	0	0	0	0	65	0	0	-70	0	0	0	0	17,667
Housing General Fund	1,817	0	0	0	0	19	0	0	0	0	0	0	0	1,836
HR, OD and Transformation	5,145	0	0	0	0	0	0	0	0	0	0	0	0	5,145
Place	5,356	0	0	0	0	1	0	0	-3	0	0	0	0	5,354
Strategy, Communications & Customer Services	3,175	0	0	0	0	0	0	0	0	0	0	0	0	3,175
Treasury	-29,794	0	0	0	0	0	6,758	0	0	0	0	0	0	-23,037
Grand Total	0	-1,653	-2,480	-500	-800	6,382	10,657	4,314	-5,656	1,320	-5,284	-3,000	-3,300	0