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|---|-----------------------------|----------------|
| 21 January 2021 | | ITEM: 6 |
| Corporate Overview & Scrutiny Committee | | |
| Draft General Fund Budget and Medium Term Financial Strategy Update | | |
| Wards and communities affected: All | Key Decision: Key | |
| Report of: Sean Clark, Corporate Director of Finance, Governance & Property | | |
| Accountable Assistant Director: Jonathan Wilson, Assistant Director 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 and 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 the Spending Review 2020, the underlying budget pressure has now been mitigated through a combination of identified savings, the anticipated but partial use of reserves 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 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 previously reported.

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 the Committee comments on the proposed council tax level with mind to the comments set out in this report; and

1.2 That the Committee comments on the draft budget as set out within this report to inform final budget proposals at Cabinet on 10 February 2021.

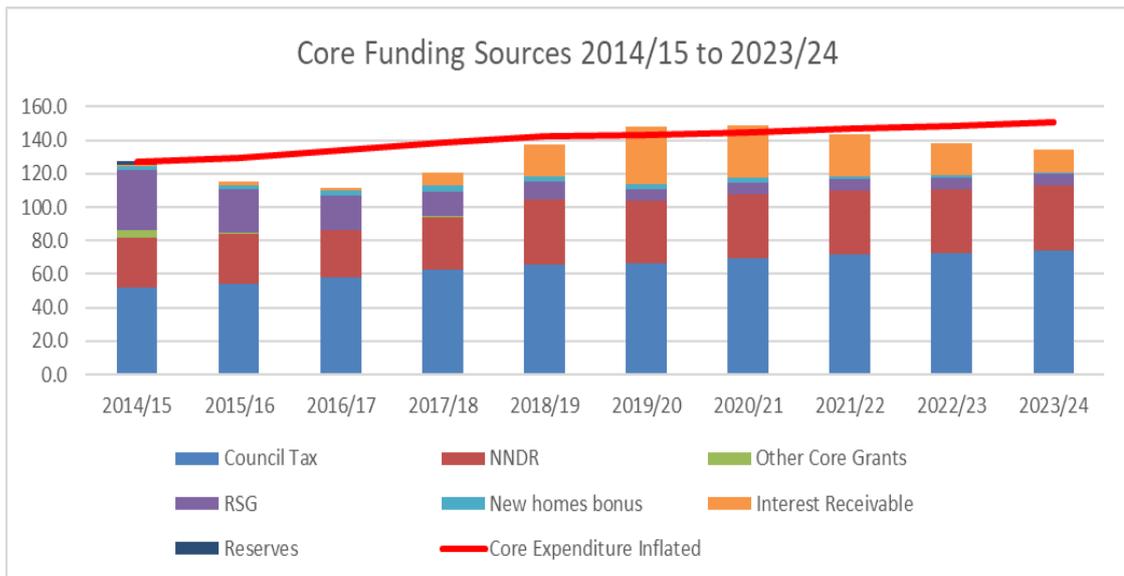
2. Introduction & Background

2.1. Before considering future years it is important to recognise any ongoing impacts from the current year. In 2020/21 Cabinet has received two update reports with the most recent reporting a net budget pressure of £2.672m. The main areas of risk continue to be within Children's Services, Homelessness and the wider Treasury position caused by a pause to the Investment Strategy. 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 also been presented with regular financial updates throughout the current financial year and the MTFs consistently showed a deficit of circa £34m over the three year period 2021/22 to 2023/24, with an initial £19.288m 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.

2.3. 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 now reflects a position where no new investments occur and shows the need for an accelerated set of service reforms to reduce base line spending to address this loss of funding.

2.4. The graph below sets out how general fund expenditure has been financed since 2014/15 and projects through to 2023/24 highlighting the need to reduce net expenditure.



- 2.5. Another key change in the current MTFS is the impact of the recommendation to increase Council Tax by 4.99%, which includes a 3% increase specifically for Adult Social Care. This is in line with the MHCLG assumed increases to the Council’s spending power as set out in the recent Local Government settlement.
- 2.6. Member priorities that were earmarked for spend against previously identified budget surpluses have now either been deferred, or cancelled altogether.
- 2.7. To date, a total of £5.656m has been identified through a combination of departmental efficiencies, a temporary suspension on recruitment to all non-essential vacant posts and a planned review of staff allowances.
- 2.8. 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 was a one-year review and only provided clarity over funding for the 2021/22 financial year - 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 is based on the assumptions that maturing investments will not be replaced and is pending a Council decision on the recommended Adult Social Care precept.

3. Draft 2021/22 Budget and Future Forecasts

- 3.1. The detailed MTFS is included in Appendix 1. The overall financial position over the next 3 years shows a deficit before intervention of £42.461m.

- 3.2. The Table differentiates between fundamental underlying pressures and ongoing covid-19 related issues; resulting in core deficits of £12.936m and £6.352m respectively for 2020/21, a total of £19.288m.
- 3.3. The provisional Local Government Finance settlement for 2021/22 includes a calculation of Core Spending Power. It is highlighted that this includes an assumption that councils will maximise council tax receipts and 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.
- 3.4. 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.
- 3.5. 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 and so the MTFs also reflects phased reductions in investment income. 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.

- 3.6. 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 in Appendix 1. This includes the one-off use of reserves (£3.300m) and capital receipts generated from the sale of council owned assets (£3.000m). Further action will be vital to ensure the remaining gap is addressed in future years and to identify sustainable long-term solutions.
- 3.7. Appendix 2 translates the 2021/22 MTFs position to an indicative directorate budget.
- 3.8. Indicative savings for 2021/22 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 |

- 3.9. 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.
- 3.10. 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.

- 3.11. 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 updates to the MTFS will be made to reflect the updated assessment of this position.

4. 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 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 in 2021/22. There is no certainty beyond the 2021/22 funding settlement and further action has to be based on the only realistic assumptions that can be made for the subsequent two years. This includes inflationary increases to core funding streams 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 2021.
- 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 has provided direction to retain existing commitments on funding police services, and to preserve, as best as possible under constrained budget challenges, 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 may progress in 2021/22 but is more likely to be pushed back until 2022/23. 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 is now likely to be deferred until 2023/24. 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. Cabinet has allocated £1m from a specific reserve to fund the Stage 3 Local Plan effort and will receive a paper on TRL in due course. All such work could lead 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 | 19.9% | £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, the Corporate Overview & Scrutiny Committee is asked to comment on the budget and the recommended 1.99% general council tax increase and 3% Adult Social Care increase.

5. 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. The council's reserves position has become far more resilient since 2016, as a 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. A total of £24m. 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 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. Reserves 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. 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 are provided to the required level.

6.2. A maximum council tax increase will always be recommended by officers as the Government's Core spending power calculations and Comprehensive Spending Review will assume the council has fully utilised resource from its ability to general resource 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. It is critical that Members and officers continue to work to identify further mitigating action and carry out service review processes across a number of areas.

7. Reasons for Recommendation

7.1. The Council has a statutory duty to set a balanced budget annually and to review the adequacy of its reserves. This report sets out a balanced budget for 2021/22 that includes the planned use of £3.3m of general reserves.

8. Consultation (including Overview and Scrutiny, if applicable)

8.1. The budget planning governance structure includes involvement and consultation with officers, Portfolio Holders and Members.

9. 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. 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 agreed 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, 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 Community and Equality Impact Assessment (CEIA) has been completed for council tax increases.

10.4 **Other implications** (where significant) – i.e. Staff, Health, Sustainability, Crime and Disorder)

There are no other implications arising directly from this update report.

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 |
| | Non Covid | Covid | Total | | |
| 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 |

Appendix 2 - Indicative Service Budget impact

| 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 | 4,866 | 100 | 0 | (4,400) | 1,320 | (5,084) | (3,000) | (2,783) | (10,183) |
| 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) | 5,714 | 10,657 | 4,314 | (5,506) | 1,320 | (5,284) | (3,000) | (2,783) | 0 |