16 November 2021	Item: 5
Corporate Overview and Scrutiny Committee	
Medium Term Financial Strategy and Budget Proposals	
Wards affected: All	**Key Decision:** N/A
Report of: Sean Clark, Corporate Director of Resources and Place Delivery	
Accountable Assistant Director: Jonathan Wilson, Assistant Director Finance, Corporate Finance	
Accountable Director: Sean Clark, Corporate Director of Resources and Place Delivery	
This report is public	

Executive Summary

There have been several reports to Members over the last year that have set out the financial challenges that the Council faces. The most recent position presented to Cabinet in September 2021 highlighted a budget gap of £34.3m over the next two years alongside a summary of the proposed actions to deliver savings to address this gap. This report sets out the latest position to the Committee and highlights there is a remaining gap of £3.9m, which is also subject to the delivery of significant staff savings.

The financial challenge faced by the Council will be further challenged by the longer-term impacts of Covid-19, which includes significant demand increases in children's and adults' social care; an issue growing across the entire local government sector.

Furthermore, the Council is 'unwinding' the previously agreed investment approach, and hence investments that were planned and agreed have been removed and existing investments will not be replaced. The removal of this funding support mechanism increases the funding gaps faced by the Council over the short to medium term.

This report also highlights the headlines from the budget announcement on 27 October 2021. This set the parameters for Council Tax increases and indicates a further allocation of funding from central government. It is expected that when added to the MTFS the additional funding will be allocated to social care pressures.

This report sets out the detail of the savings identified to date to address the funding gaps in the MTFS (including those previously identified). These have been classified into:

- Income generation;
- Providing services differently; and
- Operational efficiencies.

There are a number of other savings that are subject to approval from Cabinet in December 2021 and these are set out in Appendix 1.

1. Recommendations:

1.1 That the Committee note and comment on the financial forecasts included within this report; and

1.2 That the Committee consider the proposals set out in Appendix 1 and provide comments to Cabinet.

2. Thurrock Council's Financial Base

2.1. Officers have consistently reported that the Council operates from a low financial base in terms of core funding:

- The Council had the third lowest band D council tax compared with other unitary councils (only Windsor & Maidenhead and Isles of Scilly were lower; who themselves have a unique local financial context in terms of receivable income and spending requirements);

- The average band D council tax in Essex in 2020/21 was £1,503.10 compared with the Thurrock position of £1,332.81 (lowest in Essex);

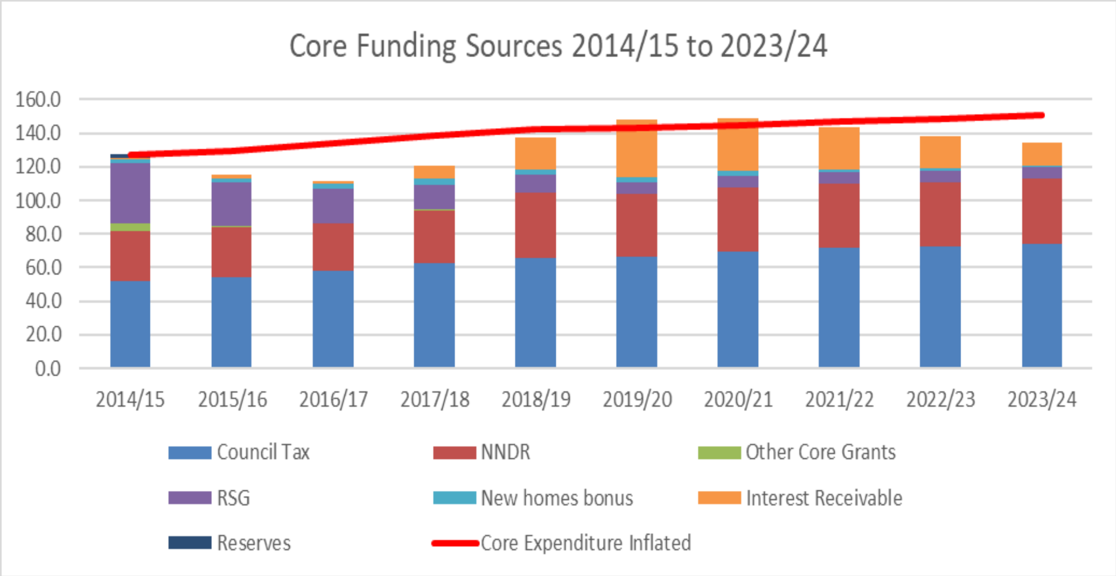
- 70% of Thurrock properties are in bands A to C and so raise significantly less than a Band D level. In fact, on average, properties in bands A-D actually attract more spend than the council tax receivable;

- The amount raised from Council Tax in 2020/21 was £69.2m compared with the nearest Unitary neighbour Southend of £84.8m; and

- In 2020/21 Thurrock projected to raise £120.1m of business rates but was only allowed to retain £36.3m or 30% of the amount collected in the area.

2.2. Further perspective is provided by the CIPFA Resilience Index. One measure classifies the amount that Thurrock spends on Adult Social Care is a higher than average percentage of total budget (i.e. a risk) – despite national benchmark reporting Thurrock Council as one of the lowest ASC spenders in the country and the total budget being low compared to others for the reasons set out in paragraph 2.1.

2.3. Council tax increases to support core services are limited every year and an annual increase of 1.99% was assumed in the MTFS. This has now been confirmed for 2022/23 (along with a further 1% specifically for Social Care). Increases to business rates are set by the government and are usually increased annually by inflation.



2.4. There are a number of discussions taking place within government that could impact on the council's core funding over the medium term and these are set out below

<u>Comprehensive Spending Review (CSR)</u>

2.5. The CSR has set out the outline detail supporting over the three year spending review period. Core Spending Power will increase by £8.5bn. This change includes grant funding from central government alongside assumptions made in respect of amounts that are expect to be raised locally from Council Tax and Business Rates.

2.6. The government has indicated that it projects that Core Spending Power will increase in the sector by £3.3bn in 2022/23, a real-terms increase of 3.4%. This increase is based on the assumption that the maximum level of Council Tax will be raised by local authorities. For the Council that equates to a 1.99% general increase and an additional 1% adult social care precept. The precept is allocated specifically to fund growth in adult social care.

2.7. The government has indicated the increase to Core Spending Power will include £1.6bn of new grant funding for Social Care and Other Services in 2022/23. The allocation of this funding to individual authorities is to be confirmed. It is expected this funding will largely address additional demand in respect of adults' and children's social care. Members should also note that this additional funding will need to meet the pressure created by the 1% increase in national insurance (circa £1m).

2.8. There is a further £0.2bn of social care funding in 2022/23 (from the Health and Social Care Levy) which is allocated to address the initial impacts of the proposed changes to the funding of adult social care.

2.9. The government also confirmed that business rates multiplier will be frozen and local authorities will receive an equivalent compensation grant. In addition, there will be adjustments to business rates including a temporary relief of £1.7bn across 400,000 retail, hospitality and leisure properties in

2022/23. Broadly this equates to a 50% business rates reduction for those qualifying businesses and local authorities will receive an equivalent grant to compensate them for the loss of income.

2.10. The public health grant will be maintained in real terms over the period of the spending review and hence be supported by inflationary increases.

2.11. There were a number of announcements in respect of education:

- An increase has been confirmed on the Core Schools Budget of £4.7bn over the Spending Review period, which is equivalent to a cash increase of £1,500 per pupil compared with 2019/20 amounts. In addition, £2.6bn over the period was announced for SEND, which is intended to support 30,000 additional places;

- The COVID recovery funding has been extended, with an additional £1.8bn. Of this, £1bn will be provided to schools over the next two academic years, with £145 per pupil in primaries, and more for secondary schools; and

- The Holiday Activities and Food Programme is being extended, with £200m per year to continue the programme which was introduced during the pandemic.

The detail of the impacts of this funding at local authority level will be set out once confirmed by central government.

Fair Funding Review

2.12. The Fair Funding review will largely consider the share that any council receives of the sector funding available nationally. As such, there will be winners and losers from any review. This remains on hold with no confirmed date of implementation in the CSR.

Business Rates Retention Reset

2.13. This is unlikely to take place in this financial year and the CSR did not include any further announcement on this. There remain two main points to note:

- For the Council to increase the amount of income retained locally from business rates requires a central government reassessment of the baseline funding need of the borough which then determines the tariff level applied. Without this, an increase from the current 49% to either 75% or 100% will not increase the council’s share of the business rates it retains owing to its status as a net contributor. For example, an increase from 49% to 75% would just increase the associated tariff level from 19% to 44% and the level of income received from retained rates would be unchanged; and

- Any change to the business rates system could affect Thurrock Council funding from day one if, as now expected, a baseline reset would be required. This is because the growth above the current baseline generated since the start of the current system in 2012/13 would be lost as part of the reset.

3. MTFS Assumptions

3.1. The MTFS is collated through a number of assumptions that then forms a net increase in the budget from one year to the next. Additional income or expenditure reductions are then required to meet this increase. The full detail of the CSR at local authority level will be available in December 2021. Alongside further consideration of the current year pressures, the position below will be updated and the expectation is that additional funding will be required to address the emerging social care pressures.

3.2. Key changes over the next two years include:

	2022/23	2023/24	Total
Core Funding – assumes 2% council tax income and increased business rates per annum but then reduced by planned reductions to government grants such as New Homes Bonus	(335)	(1,381)	(1,716)
Pay Awards, increments and other inflation such as waste disposal contracts, utilities, fuel, etc.	4,515	4,665	9,180
Treasury – phasing out of maturing investments, increased interest costs and increased MRP for capital works	7,221	4,948	12,169
Social Care and Other Growth	2,314	2,314	4,628
Covid Grant – removal of 2020/21 grant from base budget	4,853		4,853
Reserves/Capital Receipts – phasing out of temporary approach in 2021/22 budget	2,300	4,000	6,300

3.3. Over the next two years, the net increases are £21.8m for 2022/23 and £12.5m for 2023/24, a total of £34.3m.

3.4. As the Council has one of the lower budgets compared to other local authorities, services are, by definition, largely on the lower than average side in terms of net expenditure. Identifying savings to meet these pressures will continue to be challenging.

3.5. This position is not new to the Council where, over the last decade, MTFS deficits of £20m to £30m were commonplace and as recent as 2016.

3.6. More recent years saw Members agree an investment approach that provided the ability to fund services above the statutory minimum and provide headroom for the council to reform services. However, for reasons previously reported, this is no longer an option.

Further Considerations

3.7. The CSR will require a further update to the MTFS once the local authority allocations are confirmed. This will form the basis of the 2022/23 budget and will be reported to Cabinet and Corporate Overview and Scrutiny Committee in January 2022.

3.8. The updated MTFS will also consider the impact of growth in social care reported to Cabinet in December 2021. The broad expectation for the purpose of this report is that any growth in funding will be absorbed by the increased levels of demand for social care as set out below.

3.9. Like other local authorities, there are considerable pressures in Children's Social Care which include a significant increase in the cost of looked after children with the overall numbers increasing over the budgeted level (but within national averages) and with more complex cases requiring significant funding. Furthermore, the average market price for placements has increased significantly in the external residential market locally, which is consistent with the wider national picture. There are currently three cases where there is no residential placement available and alternative higher cost arrangements have been required. The Council is also funding a number of children placed on remand following incidents arising since the lifting of lockdown restrictions.

3.10. In Adults' Social Care, funding pressures have arisen in older peoples residential and domiciliary care as the pandemic progressed. This was funded in the short term by central government Covid funding but remains an ongoing pressure as this funding ends. There are wider concerns over the fragility of the residential care market and the impact of changes to the national living wage, national insurance and increased utility costs.

3.11. There are additional concerns over the changes proposed under the reform to the funding of adult social care on the local authority and the wider impact on residential care providers. The detail is not yet available to assess the financial impact.

3.12. The income levels raised by fees and charges also continues to be monitored where the impacts of the pandemic continue in reductions to income streams such as car parking.

4. Savings Proposals

4.1. Officers have been working over recent months to identify ways of reducing net expenditure. These are set out in Appendices 1 and 2 and have been categorised as follows:

- Those that require Cabinet approval (Appendix 1);
- Those under operational responsibilities (Appendix 2):
    - Income generation;
    - Those that come from providing services differently;

- Operational Efficiencies; and
- Reductions to the General Fund Revenue budget of staffing/service reductions.

4.2. The Committee should note that the proposal to charge for Garden Waste Collection has now been removed.

4.3. Whilst a number of savings are set out within the appendices, there are two categories (staffing and assets) that require a more detailed narrative in this report.

4.4. As a large number of the council's budgets are at lower than average cost in comparison nationally, identifying savings of this magnitude are not as simple as identifying a handful of services to cut back or stop. As such, officers looked at the types of expenditure that the council incurs – these are known as the subjective budgets – and can cross a wide number of services.

4.5. The Council has 16 subjective budgets in excess of £1m, the largest being employee related. The next two cover adults and children's social care placements, both very difficult to make significant reductions.

4.6. There are then a number of budgets where there can be limited impact: the Minimum Revenue Provision (the repayment of debt linked to the historic capital programme); interest costs on debt (long term debt interest linked to the capital programme and other interest relating to investments where a reduction in cost leads to a greater reduction in income); and the Concessionary Fares Scheme.

4.7. Others where there is some discretion include Home to School Transport (included in appendix 1) and the running cost of assets.

4.8. Salary costs related to service delivery:

4.8.1. Members will be aware that one aspect of balancing the 2021/22 budget was to target savings of £4m from vacant posts. The MTFS then assumed that the temporary saving would be turned into a permanent one through the deletion of, an average, 100 posts;

4.8.2. As staff costs are by far the largest of the council's budgets, it is obvious that a higher target than £4m needs to be achieved when considering the budget gap. Officers are currently working on an assumption of reducing staff related costs by £10m for each of the next two years. At an average on-costed salary, this equates to a 500FTE reduction over the two years that represents circa 25% of the current workforce. The reduction of permanent positions will see a proportionately leaner management structure;

4.8.3. Reductions of costs to the General Fund Revenue Account include the ability to charge the costs to other accounts, such as capital, be met through increased income or through a deletion of the post. Every effort will be made to reduce any impact on services and residents through transformational changes but there will, undoubtedly, be impacts on services and outcomes-targeted reform will be required;

4.8.4. Cabinet have asked senior officers to ensure that working practices are reformed to minimise impact as far as possible on front line services and the ability of back office teams to support services and project delivery. It is, however, understood that reducing permanent staffing numbers at this level will have impacts on service delivery and will inform decisions about what business a council should / should not be performing; and

4.8.5. Appendix 2 shows identified staffing reductions of £5.013m over the next two years and there is a further £1.5m through identifying current posts that are vacant that can be deleted, through Phase 1 of this work. As such, there is still £13.5m and related impacts to identify in subsequent phases.

4.9. Assets:

4.9.1. Proposals include a target of £0.850m to be achieved through a reduction of property related running expenses;

4.9.2. The Council holds three types of property related assets: operational, community and other. Other includes assets currently leased to tenants as well as assets surplus to requirements;

4.9.3. A number of these assets incur considerable annual running costs that an include facility management and security, business rates, utility and insurance costs, and maintenance;

4.9.4. The majority of assets also carry the probable risk, or need, of requiring considerable capital investment with the related revenue cost that this will lead to;

4.9.5. The 3Rs programme of Retain, Re-use, Release is considering all of the council's assets in terms of need, service delivery, cost, capital expenditure requirements; and

4.9.6. A disposal programme identified the first assets for sale and these will provide a capital receipt and contribute towards expenditure reductions.

4.10. In summary, assuming that all of these are agreed and implemented, the financial position would be:

	2022/23	2023/24	Total
Gross Budget Pressure	21,826	12,513	34,339
Cabinet Decision (Appendix 1)	(2,218)	(596)	(2,814)
Income Generation	(1,110)	(522)	(1,632)
Provide Services Differently	(2,513)	(522)	(3,035)
Operational Efficiencies	(1,438)	(325)	(1,763)
Staff/Service reductions	(10,000)	(10,000)	(20,000)
Core Funding and TRL Adjustment	(1,207)	-	(1,207)
Balance Still to Identify	3,340	548	3,888

4.11. The table above shows the original budget pressures reduced from £34.3m to £3.9m over the two-year period. However, Members should recognise that all of the identified savings will be challenging in themselves but there are also more challenging reductions in staffing/services and assets to identify.

5. Reasons for Recommendation

5.1. The Council has a statutory requirement to set a balanced budget annually. Action is required in a timely fashion when considering periods of consultation, where necessary, with staff, Overview and Scrutiny Committees and residents. A number of these proposals can be implemented under officer delegations, such as restructures and commercial income opportunities, but others will need to come back to Cabinet in September 2021 after relevant Overview and Scrutiny consideration.

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

6.1. This report is based on consultation with the services, Directors' Board and portfolio holders. Proposals included within Appendix 1 will be considered by the relevant Overview and Scrutiny Committee before being considered by Cabinet again later in the year. Public consultation will also take place where applicable.

7. Impact on corporate policies, priorities, performance and community impact

7.1. The implementation of previous savings proposals has already reduced service delivery levels and the council's ability to meet statutory requirements, impacting on the community and staff. These proposals will, to a certain degree, add to that. There is a risk that some agreed savings and mitigation may result in increased demand for more costly interventions if needs escalate particularly in social care. The potential impact on the council’s ability to safeguard children and adults will be kept carefully under review and mitigating actions taken where required.

8. Implications

8.1. Financial

Implications verified by: **Jonathan Wilson**

Assistant Director Corporate Finance

The financial implications are set out in the body of this report. Council officers have a legal responsibility to ensure that the Council can contain spend within its available resources. Regular budget monitoring reports continue to come to Cabinet and be considered by the Directors’ Board and management teams in order to maintain effective controls on expenditure during this period of enhanced risk. Measures in place are continually reinforced across the Council in order to reduce ancillary spend and to ensure that everyone is aware of the importance and value of every pound of the taxpayers money that is spent by the Council.

8.2. Legal

Implications verified by: **Ian Hunt**

Assistant Director Law and Governance and Monitoring Officer

There are no specific direct 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.

Within the report there are a number of proposed savings identified, and there will be a process for consultation with Scrutiny and where relevant the public in line with the Councils duties to consult.

8.3. Diversity and Equality

Implications verified by: **Natalie Smith**

Community Development and Equalities Manager

The Equality Act 2010 places a public duty on authorities to consider the impact of proposals on people with protected characteristics so that positive or negative impacts can be understood and enhanced or mitigated as appropriate. Services will be required to consider the impact on any proposals to reduce service levels through a community equality impact assessment which should seek to involve those directly affected.

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

Proposals set out in this report will have an impact on all services across the council through either a direct impact on front line service delivery or through general capacity to support both statutory and discretionary services.

9. Appendices to the report

Appendix 1 - Savings Proposals that Require Cabinet Approval

Appendix 2 - Savings Proposals under Directors' Operational Delegations

Report Author

Sean Clark

Corporate Director of Resources and Place Delivery

Appendix 1

Savings Proposals Requiring Cabinet Approval

Directorate/Service	Narrative	2022/23 £000's	2023/24 £000's	Total £000's
Corporate	Assets – Some will require Cabinet approval as and when identified	(850)	0	**(850)**
Adults	ASC Provider Services Transformation	(554)	0	**(554)**
Children's	A comprehensive review of the Education Service,	(214)	(196)	**(410)**
Children's	Placements - To increase the number of internal fostering household numbers and to decrease our reliance on more expensive external foster placements.	(300)	(300)	**(600)**
Public Realm	Introduce Pay & Display into Country Park and some green-space parking areas	(100)	(100)	**(200)**
Public Realm	Re-prioritisation and review of major routes and Town Centre cleansing	(100)	0	**(100)**
Public Realm	Review of Grounds Maintenance Programme	(100)	0	**(100)**

Appendix 2

Savings Proposals Under Directors' Delegation

Directorate	Narrative	2022/23 £000's	2023/24 £000's	Total £000's	Saving Type
Adults	Integrated Commissioning	(322)	0	**(322)**	Transformation
Adults	Review of High Cost Supported Living Placements	(400)	0	**(400)**	Transformation
Adults	New Model of Care – Supported Living	(200)	(200)	**(400)**	Transformation
Adults	Population Health Management	(130)	0	**(130)**	Transformation
Public Realm	Residual waste collections reduced to fortnightly, introduction of food waste collections as outlined in the Waste Strategy. Previously agree by Cabinet	(322)	(322)	**(644)**	Transformation
Housing GF	Reduce use of Private Sector TA with new model of in borough provision, use of LHA	(1,139)	0	**(1,139)**	Transformation
Corporate	New Income Streams	0	(200)	**(200)**	Income
Adults	Implement increased Domiciliary Care Charging Immediately (previously agreed)	(205)	(22)	**(227)**	Income
Public Realm	Commercial Waste	(50)	0	**(50)**	Income
Public Realm	Bulky Waste	(20)	0	**(20)**	Income
Public Realm	Counter Fraud Commercial Income	(500)	0	**(500)**	Income
Public Realm	Commercially Trade CCTV Capability	(100)	(150)	**(250)**	Income
Public Realm	Commercial Grounds Maintenance Contracts	(150)	(150)	**(300)**	Income
Strategy and Engagement	Operational & Finance support for High House Production Park	(85)	0	**(85)**	Income
Corporate	General Costs	(250)	(200)	**(450)**	Operational
Adults	Re-tender PH contracts	(200)	0	**(200)**	Operational
Adults	Efficiencies from ending Section 75	(98)	0	**(98)**	Operational
Children's	Learning Universal Outcome – Further work is required to ensure service that remains delivers on	(175)	(125)	**(300)**	Operational

Appendix 2

Savings Proposals Under Directors' Delegation

Directorate	Narrative	2022/23 £000's	2023/24 £000's	Total £000's	Saving Type
	SEND and statutory functions only. In 2021/22 savings of £1m will be implemented.				
Public Realm	Range of Minor Efficiencies	(115)	0	**(115)**	Operational
Resources and Place Delivery	MRP and Treasury	(500)	0	**(500)**	Operational
Strategy and Engagement	Review of advertising & publicity, look to use more online platforms	(25)	0	**(25)**	Operational
HR, OD and Transformation	Training	(75)	0	**(75)**	Operational
All	Targeted Staff Reductions already identified	(2,359)	(535)	**(2,894)**	Staff
All	Capitalisation and Grant Use	(2,000)	0	**(2,000)**	Staff