

FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

IMPROVEMENT AND SCRUTINY COMMITTEE - RESOURCES

1 December 2022

Report of the Director of Finance & ICT

PRODUCTION OF 2023-24 REVENUE BUDGET

1 Purpose of the Report

- 1.1 To consult Members of the Improvement and Scrutiny Committee – Resources as part of the process towards production of the 2023-24 Revenue Budget, providing Members with an update of the Revenue Budget Forecast Outturn for 2022-23, an update on the projected funding and pressures in respect of the Revenue Budget 2023-24, based on currently known information, and a summary of the key announcements relevant to Local Government in the recent Autumn Statement 2022.

2 Information and Analysis

Background

- 2.1 In setting the Revenue Budget in 2022-23, the Five-Year Financial Plan was updated, demonstrating that savings of £67m were required over the period of the Five-Year Financial Plan. In terms of the 2023-24 Revenue Budget, based on estimates at that time, savings of £11.114m had been identified to be delivered in 2023-24 in order to achieve a balanced budget. It was assumed that grant funding to the Council in 2023-24 would be cash-flat i.e., at 2022-23 levels, with a 2% Council Tax increase. Services pressures totalling approximately £19m were assumed for 2023-24, with a pay award of 2% estimated at a cost of £6.651m. The estimated Revenue Budget position as of February 2022 for 2023-24 is summarised in the table below.

	£m	£m
Expenditure		
Base budget b/f	601.250	
Pay Award	6.651	
Cost pressures	19.475	
Additional interest receipts	(2.182)	
Increase Risk Management Budget	1.856	
Total Expenditure		627.050
Less Funding		
Business Rates	(18.069)	
Government Grants	(215.686)	
Council Tax	(382.181)	
Total Funding		(615.936)
Savings Required		(11.114)

- 2.2 Since February 2022, the global economy has shifted dramatically, in response to events in Ukraine and rising energy costs, resulting in unprecedented inflation levels. Demand pressures on Council services have also continued to grow.
- 2.3 Over the course of the Summer/Autumn 2022 departments have undertaken significant work in identifying new savings proposals and preparing details of revenue cost pressures, along with an update on Forecast Revenue Outturn 2022-23.
- 2.4 The key announcements in the recent Autumn Statement, relevant to Local Government, are also set out in paragraphs 2.22 - 2.23 below. More details and Council-specific information are unlikely to be available until the Provisional Local Government Finance Settlement is announced, which is expected to be in the week commencing 19 December 2022.

Forecast Revenue Outturn 2022-23 Summary

- 2.5 The Council's forecast Revenue Outturn 2022-23 summary below was reported to Cabinet on 13 October 2022 and is as at Quarter 1 (30 June 2022). The Quarter 2 (30 September 2022) forecast will be reported to Cabinet on 8 December 2022.
- 2.6 The forecast position is reported net of the impact of the ring-fenced Dedicated Schools Grant (DSG) of £389.554m and Public Health grant of £43.803m, other ring-fenced grants and income from other third parties and associated spend.

- 2.7 An overall Council overspend of £29.654m is forecast as at Quarter 1, after using £0.478m of un-ringfenced Department for Levelling Up Housing & Communities (DLUHC) Covid-19 general emergency grant funding brought forward from 2021-22. However, against this forecast, it is planned that the Council will use all, or some, of the balances on the Budget Management (all £10.000m), Covid-19 (£9.654m of £15.370m) and Inflation Earmarked Reserves (all £10.000m), to report a break-even position (net zero).
- 2.8 Whilst use of earmarked reserves, in-year, will result in the Council reporting a break-even position, the impact of the unfunded pay offer for 2022-23, demand pressures and inflationary costs will need to be addressed as part of the budget setting process for 2023-24, as the effect will be an ongoing cost pressure.
- 2.9 There is a £31.317m forecast portfolio overspend as at Quarter 1. The significant variances are:
- an overspend of £19.971m on the Adult Care portfolio;
 - a £2.726m overspend on the Corporate Services and Budget portfolio;
 - a £6.428m overspend on the Highways and Transport portfolio; and
 - a £2.095m overspend on the Children's Services and Safeguarding and Education portfolios.
- 2.10 The forecast £19.971m overspend on the Adult Care portfolio relates to Purchased Services costs. There has been an increase in demand in relation to hospital discharges and because there is an insufficient supply of home care and reablement services, this has driven increased placements into residential homes rather than into care at home.
- 2.11 The forecast £2.726m overspend on the Corporate Services and Budget portfolio has mainly arisen in the Corporate Property division, primarily because of delays in achieving previously allocated savings.
- 2.12 The forecast £6.428m overspend on the Highways Assets and Transport portfolio mainly relates to unachieved savings from previous years, and additional costs arising from highways maintenance potholes repair, highways management under-recovery of highways salaries recharged to capital schemes and highways agency expenditure.

- 2.13 The forecast £2.095m overspend on the Children's Services and Safeguarding and Education portfolios is partly due to a continued high demand for placements for children who are in care or unable to remain at home. The number of children requiring support is growing because the rate at which children enter care is greater than the rate at which children exit care, and because alternatives to care often require long-term financial support, leading to a growing number of arrangements to fund. Average cost increases are due to inflation and the need to make more higher cost placements with independent providers.

2023-24 Cost Pressures

- 2.14 A significant sum of cost pressures has been identified for 2023-24 and beyond.
- 2.15 In addition, there are several 2023-24 inflationary cost pressures. Historically, these pressures are held in a contingency budget until the full cost implications are ratified later in the financial year and allocated to the departmental budgets as appropriate.

2023-24 Pay Pressures

- 2.16 The current version of the Five-Year Financial Plan assumed annual pay increases of 2% from 2022-23 onwards. The recently accepted pay offer for the current financial year has resulted in additional costs over and above those originally estimated. Furthermore, given the current high inflation rates, a pay offer of 2% is unlikely for the next financial year and this will be reflected in revised budget proposals for the Revenue Budget 2023-24.
- 2.17 The 2021-22 pay award was also higher than the sum originally estimated, which has resulted in an additional ongoing pressure. The pay award was not agreed until 28 February 2022. This has been funded in 2022-23 by drawing down reserves, which is unsustainable and now needs to be recognised as a base pressure to align the salary budgets. Again, this will be addressed as part of the 2023-24 budget proposals.

Savings

- 2.18 Departments have identified a range of new savings proposals, although some of these savings only serve to mitigate previously agreed unachievable savings.

Funding

- 2.19 The current Consumer Price Index (CPI) inflation rates should result in additional general grant funding allocations in 2023-24, albeit the increases as a result of this are likely to be nominal. The Autumn Statement 2022 announced details of Council Tax referendum limits for 2023-24 which permit a general increase of 3% and an Adult Social Care Precept increase of 2%. However, it should be noted that a decision on the level of the Council Tax increase will not be made until details of the Provisional Local Government Finance Settlement are announced, which is expected to be towards the end of December 2022.
- 2.20 Utilising the balance on the risk management budget and clawing back the budget allocated for the National Insurance Levy being reversed with effect from November 2022 will help to mitigate any funding gap.

Projected 2023-24 Revenue Budget

- 2.21 There are still several uncertainties at this stage and the final detail in terms of funding allocations will not be known until the announcement of the Provisional Local Government Finance Settlement. The additional cost pressures are only mitigated with nominal additional savings and projected additional funding, which is likely to result in a significant ongoing base budget shortfall. The funding projections are prudent, so the funding gap may be closed to some extent when actual allocations are indicated by Government. The gap could be significantly reduced with the use of reserves in 2023-24 but this is unsustainable into the medium-term and the Council's reserves would be depleted unless significant savings can be identified in order to bring the base budget into balance. The Autumn Statement 2022 (see below) announced on 17 November 2022, indicated that additional funding would be made available to local authorities, however, the final detail of individual grant allocations will not be known until the Finance Settlement is announced, probably in the week before Christmas.

Autumn Statement 2022

- 2.22 On 17 November 2022, the Government announced the details of the Autumn Statement 2022 and the Spending Review 2022, setting out public spending totals for two years, 2023-24 and 2024-25. The Office of Budget Responsibility's Economic and Fiscal Outlook was published alongside the Autumn Statement.
- 2.23 The key announcements in the Autumn Statement, relevant to Local Government, were:

- The Local Government Departmental Expenditure Limit (LG DEL) is set to increase significantly, by around 30%, in 2023-24 and 2024-25. This assumes that increased Council Tax flexibilities are fully utilised. LG DEL is the Government budget that is allocated to and spent by the Local Government sector. It includes funding for local authorities and certain other Local Government organisations.
- After this Spending Review period, it is assumed that LG DEL will grow at 1% a year in real terms from 2025-26 to 2027-28. Departmental capital spending will continue at the same level in cash terms.
- Local authorities will have additional flexibility in setting Council Tax, with the referendum limit for setting Council Tax being increased to 3% each year from April 2023. In addition, local authorities with social care responsibilities, such as the Council, will be able to increase the Adult Social Care Precept (ASC Precept) by up to 2% per year.
- The approach to allocating funding in 2023-24 will be set out in the Provisional Local Government Finance Settlement. There was no indication of whether the Settlement will cover multiple years.
- The Government will launch an Efficiency and Savings Review, which will target increased efficiency, reprioritise spending away from 'lower-value' programmes and review the effectiveness of public bodies. Savings will be reinvested in public services. A report on progress is planned in the Spring.
- There was no mention of the Fair Funding Review. It was previously announced that this would be delayed until 2025 at the earliest.
- Social Care charging reforms are delayed for two years to October 2025, responding to the concerns of Local Government. Funding for implementation will be maintained to enable local authorities to address current adult social care pressures. This will be allocated at the Local Government Finance Settlement through the Social Care Grant.
- The NHS will receive additional funding of £3.3bn in each of the next three years.
- NHS performance also relies on the adult social care system, so £2.8bn in 2023-24 and £4.7bn in 2024-25 is being made available to help support adult social care and discharge. This includes £1bn of new grant funding in 2023-24 and £1.7bn in 2024-25. £600m in 2023-24 and £1bn in 2024-25 of new funding will be distributed through the Better Care Fund to get people out of hospital on time into care settings, which will be split 50:50 between local authorities and the NHS. £400m in 2023-24 and £680m in 2024-25 of new funding will be distributed through a new grant ring-fenced for adult social care, which will also help to support discharge. In addition to this new funding, £1.3bn in 2023-24 and £1.9bn in 2024-25 of

repurposed Reform Funding will be distributed to local authorities through the Social Care Grant for adult and children's social care. Utilising additional Council Tax flexibility of 2% (1% additional ASC Precept and 1% on general Council Tax) is calculated to contribute £0.7bn in 2023-24 and £1.3bn in 2024-25. This is then reduced by £0.2m in 2023-24 and £0.2m in 2024-25 with regard to reduced funding for National Insurance Contributions.

- The indication to the Society of County Treasurers following enquiries after the Autumn Statement is that funding for local authorities in addition to the current Adult Social Care Grant will therefore be £2.5bn in 2023-24 and £4.2bn in 2024-25, provided Council Tax increases by the maximum amount permitted by the increased referendum limits.
- There will be a £1bn extension of the Household Support Fund to 2023-24, to deliver support with the cost of essentials to households.
- The 2023 Business Rates revaluation will take place as planned. Recognising that businesses are facing significant inflationary pressures, an overall package of targeted support to help with Business Rates of £13.6bn over the next five years is announced. Business Rates multipliers will be frozen in 2023-24, and upward transitional relief caps will provide support to ratepayers after the revaluation. Support for eligible retail, hospitality and leisure businesses is being extended and increased from 50% to 75% Business Rates Relief, up to £0.110m in 2023-24. There will be additional support for small businesses.
- Local Authorities will be fully compensated for the loss of income as a result of the business rates measures and will receive new burdens funding for administrative and IT costs. There will be additional compensation for under-indexation of the Business Rates.
- There was no further announcement on previously announced Business Rates Reform.
- There will be an increase in the National Living Wage (NLW) by 9.7% to £10.42 an hour for people aged 23 and over, starting on 1 April 2023. The Government continues to aim for a NLW of two-thirds of median incomes by 2024.
- Recommendations are being sought from Pay Review Bodies, where applicable, for 2023-24 pay awards.
- The level at which employers start to pay Class 1 Secondary National Insurance Contributions for their employees (the Secondary Threshold) will be fixed at £9,100 from April 2023 until April 2028. This will be legislated in early 2023.
- The core schools budget will receive an additional £2.3bn of funding in 2023-24 and £2.3bn in 2024-25. After adjusting Spending Review 2021 budgets down to account for the removal of the compensation for employer costs of the Health and Social Care Levy, this brings the core schools budget to a total of £58.8bn in 2024-25, £2bn

greater than published at Spending Review 2021. This restores 2010 levels of per pupil funding in real terms and provides an average cash increase for every pupil of more than £1,000 by 2024-25, compared to 2021-22.

- A second round of the Levelling Up Fund is announced, which will allocate at least £1.7bn to priority local infrastructure projects. Successful bids will be announced by the end of the year.
- A previously announced Investment Zones programme will be refocused to a limited number of 'high potential' clusters. Further announcements will take place in the coming months. Existing expressions of interest will not be taken forward.
- A devolution deal, which will bring an elected mayor to Suffolk, is announced, with agreement expected shortly for Mayoral deals in Cornwall, Norfolk and an area in the North East. This will increase the proportion of people living under a directly elected mayor to 50% in England.
- The potential for providing a single departmental style settlement to the Greater Manchester and West Midlands Combined Authorities at the next Spending Review will be explored.

Summary

- 2.24 In supporting the demand and inflationary cost pressures in 2023-24 there is likely to be a significant base budget shortfall. It is anticipated that the announcements made in the Autumn Statement 2022 will help to bridge the funding gap, however, details of funding allocations to local authorities will not be announced until the Provisional Local Government Finance Settlement, which is not expected until late December 2022.
- 2.25 The Government's Autumn Statement 2022 provided an indication that Local Government funding is not being cut to fill the Government's current financial shortfall, although this does assume that increased Council Tax flexibilities of up to 5% are fully utilised.
- 2.26 There will be a significant use of earmarked/general reserve to support the 2022-23 outturn position and a balanced budget in 2023-24. Whilst this approach is feasible in 2022-23 and 2023-24, it is unsustainable beyond that period, unless additional funding support is provided by Government.
- 2.27 In the absence of additional funding support, significant savings will be required to balance the base budget.

- 2.28 Whilst a review of earmarked reserves is currently ongoing, in the event that insufficient balances are clawed back to support the level required to balance the budget, further measures may be needed, which include utilising balances on un-ringfenced reserves, with the intention that these will be replenished in later years.
- 2.29 Further measures may be required to ensure departments remain within budget. These include cessation of:
- New expenditure.
 - Recruitment to temporary or permanent vacancies.
 - Spend on ICT, assets and other consumables.
 - Suspension of key projects.
- 2.30 Detailed budget proposals will be considered by Cabinet on 2 February 2023 prior to Council approving the Revenue Budget 2023-24 on 15 February 2023.

3 Recommendations

That Members:

- 3.1 Note the Revenue Budget Forecast Outturn for 2022-23, as at Quarter 1 (30 June 2022).
- 3.2 Note that there is likely to be a significant shortfall in the Revenue Budget 2023-24 based on currently known information.
- 3.3 Note the ongoing work to identify further savings options, to reduce the 2023-24 Revenue Budget shortfall and therefore mitigate the use of one off-reserves to deliver a balanced budget.
- 3.4 Note the key announcements in the Autumn Statement 2022 relevant to Local Government.

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