

Title of report: 2023/24 Budget Setting Progress Update

Scrutiny Management Board: 7th October 2022

Report by: The Head of Strategic Finance (deputy S151) Officer

Classification

Open

Decision type

This is not an executive decision

Wards affected

(All Wards);

Purpose

To seek the views on the developing 2023/24 budget and 4 year Medium Term Financial Strategy (MTFS) to 2026/27 and to make any recommendations to the Cabinet details the impact of continued pressures from growth in demand and rising inflation on the council's financial position. It highlights the need to identify options for additional income, savings and efficiencies to mitigate these pressures to achieve a balanced budget.

The committee is invited to make recommendations to inform, constructively challenge and support the process for making Cabinet proposals to Council regarding the adoption of the budget.

Recommendation(s)

That:

- a) The board is asked to note the report; and**
- b) The board considers how it can support the budget setting process and the areas inviting comment which are identified in this report**

Alternative options

1. The Board could choose not to review the options to mitigate financial pressures but this is not recommended as the Board has a role to undertake scrutiny in relation to the budget planning process.

Key considerations

Background and Context

2. The council, alongside all local authorities, faces significant financial challenges in the continued delivery of services and improvements whilst maintaining a financially sustainable and resilient position. Continued uncertainty over Central Government funding and national changes in policy, particularly adult social care reforms, alongside emerging cost and demand pressures, will have a significant impact on the council's net revenue and capital budgets over the medium term.
3. The draft MTFs presents a challenging position; with early forecasts identifying a gap between resources and pressures of **£21.6m in 2023/24**, rising in subsequent years to around **£57m by 2026/27** if no mitigating actions are implemented. This draft position is based on a number of variables and assumptions which are subject to change and these are detailed later in this report.
4. The council maintains a prudent level of reserves to manage future financial risks. At 31 March 2022, the council has useable reserves of £106.1m, comprising Earmarked Reserves of £96.5m and a General Fund balance of £9.6m as detailed per Appendix 4. These reserves were deemed to be adequate to support the 2022/23 budget.
5. Government has yet to confirm the limits the maximum increase in core council tax for 2023/24 before triggering the need for a referendum, officers have modelled the budget on an increase of 1.99%. In addition, an assumption has been made that the council will charge a 1% Adult Social Care precept, this is subject to Government confirming the arrangements for Adult Social Care precepts for 2023/24.

Significant issues and pressures

6. The significant issues which contribute to the council's challenging positions and a summary of their impact in 2023/24 are noted below.
7. The net pressure for 2023/24 is currently forecast at £21.6m and is summarised in Table 1 below with analysis per Directorate at Table 2.
8. The cost of living crisis is placing Herefordshire residents under significant pressure; work is ongoing to develop strategies to help address the cost of living crisis.

Table 1: Estimated Pressures 2023/24

| Assumed Pressure 2023/24 | Latest Estimate £m | Key Assumptions/Notes |
|-------------------------------|--------------------|--|
| Pay inflation | 3.0 | Pay inflation assumed at £1,925 per FTE; noting pay award offer has been made but not agreed. |
| Pay increment | 1.4 | Annual incremental pay increases for relevant staff, based on current establishment. |
| Demand pressures: Social Care | 12.0 | Demand pressures in Adult Social Care are modelled on client data at Q1 of 2022/23. No general growth is assumed in this estimate. Demand pressures in Children's Social care are modelled on current client data at Q1 of 2022/23. Demand pressures include |

| | | |
|-----------------------------------|-------------|--|
| | | additional staff costs as identified to deliver transformation across Children's services. |
| Demand: Other budget pressures | 2.6 | Pressures in Corporate Services comprising staffing costs for previously funded posts and increased demand in concessionary travel. |
| Contract inflation | 2.2 | Inflation is assumed at 8% based on initial indications of National Living Wages and CPI. |
| Non-contractual inflation | 8.2 | Work is underway to separate out from £10.4m above and identify non-contractual element. |
| Energy inflation | 1.0 | Inflationary increases are based on estimates provided by West Mercia Energy. |
| Capital Financing costs | 1.8 | Costs based on the planned capital programme. Further due diligence to be completed on the profile of capital expenditure. |
| Interest costs | 1.0 | Interest rates are informed by estimates from the council's Treasury Management Advisors. |
| Savings identified | (0.9) | Savings identified through transformation and remodelling of Adults services. Further work to be completed to prepare detailed savings plans. |
| Other variances and mitigations | (0.5) | This represents the removal of one-off funding. |
| Net budget requirement | 31.8 | |
| Estimated funding increases 23/24 | (10.2) | Funding increases are informed by Pixel modelling. Further due diligence to be completed to confirm the increase in resources for the council. |
| Net pressure | 21.6 | |

Table 2: 2023/24 Pressures by Directorate

| | Community & Wellbeing | Children & Young People | Economy & Environment | Corporate | Central | Total |
|---------------------------|-----------------------|-------------------------|-----------------------|------------|------------|-------------|
| | £m | £m | £m | £m | £m | £m |
| Pay inflation | 0.7 | 1.0 | 0.6 | 0.7 | - | 3.0 |
| Pay increment | 0.2 | 0.5 | | 0.7 | - | 1.4 |
| Demand pressures | 1.1 | 10.9 | 0.3 | 2.3 | - | 14.6 |
| Contract inflation | 0.4 | - | 1.8 | - | - | 2.2 |
| Non-contractual inflation | 5.3 | 1.3 | 0.6 | 1.0 | - | 8.2 |
| Energy inflation | | | 1.0 | | | 1.0 |
| Capital Financing costs | - | - | - | - | 1.8 | 1.8 |
| Interest costs | - | - | - | - | 1.0 | 1.0 |
| Savings | (0.9) | - | - | - | - | (0.9) |
| Other | (0.5) | - | - | - | - | (0.5) |
| Total pressure | 6.3 | 13.7 | 4.3 | 4.7 | 2.9 | 31.8 |

Pay inflation and incremental uplift

9. The council budgeted for a 2% pay award when setting the 2022/23 MTFS; each additional 1% increase in the national pay award adds a further £0.6m to the forecast.
10. Following recent communications, it is now expected that pay costs will be higher than anticipated in future years in order to address the cost of living increases and national living wage rise. The current offer of an increase of £1,925 on basic salary per FTE will result in an additional pressure of £3.0m in 2023/24, with incremental pay increases estimated at a further £1.4m. This pressure is in addition to the recruitment challenges facing the local government sector.

Social Care inflation and rising demand

11. Significant inflationary pressures are being faced in all areas of social care and other demand led services. Rising costs in Adult Social Care are being experienced across residential and domiciliary care as providers address workforce pay issues and the wider implications of general inflation. Estimates, based on current levels and forecast changes in demand, suggest demand pressures of £1.1m and inflationary increases of £5.7m in 2023/24.
12. Whilst it is not possible to predict the recurring budget pressures arising as a result of future social care reforms, it is anticipated that changes in the funding regime may require a 25% increase in relevant staffing levels representing an additional cost burden of £1m to support the new regime. At this stage, the impact of Fair Cost of Care on residential and nursing placements has not been included in the draft MTFS with further work required to quantify the potential increase in costs. This too will result in significant additional pressures for the council.
13. In Children's Social Care, the cost of placements continues to rise to reflect inflationary pressures and demand for placements in the sector. Current estimates identify inflation pressures of £1.3m and demand pressures of £4.8m with additional staffing costs of £4.5m required to deliver transformation across the Children & Young People Directorate.

General inflationary increases

14. The council continues to experience financial pressures from the impacts of high inflation across all contracts that are linked to RPI and CPI as well as non-contractual goods and services. Potential pressures on income from fees and charges for discretionary services and commercial activities, already noted through in-year budget monitoring in 2022/23, are a further impact of rising inflation as residents and businesses across the County manage cost of living rises. The draft MTFS assumes an 8% inflationary uplift in 2023/24 with a total impact of £10.4m. A 1% variation in this assumed uplift will result in additional £1.3m pressure for the council, a 5% increase in the assumed rate of inflation will result in pressures of £6.5m.
15. Inflation pressures arising from energy costs are estimated at £1.0m for 2023/24 however it should be noted that there is risk within this estimate as a result of the unstable global position.
16. The impact on inflation has an impact on the council's Minimum Revenue Provision (MRP) assumptions and the board may wish to consider reviewing the council's MRP arrangements as part of its work program.

Key assumptions in pressures

17. The key assumptions for expenditure, income and treasury rates which inform the 2023/24 budget and MTFS are included below at Table 3.

Table 3: Key Assumptions 2023/24 to 2026/27

| Expenditure | 23/24 | 24/25 | 25/26 | 26/27 |
|--|----------------|----------------|--------------|--------------|
| Pay award | £1,925 per FTE | £1,925 per FTE | 4.00% | 4.00% |
| Employers National Insurance | 15.05% | 15.05% | 15.05% | 15.05% |
| Employers Pension Contributions (payroll rate) | 17.60% | 17.60% | 17.60% | 17.60% |
| Contract Indexation - Community Wellbeing | 8.00% | 5.00% | 5.00% | 5.00% |
| Contract Indexation - E&E | 8.00% | 8.00% | 8.00% | 8.00% |
| Contract Indexation - Childrens Placements | 6.00% | 6.00% | 6.00% | 6.00% |
| Contract Indexation - IT | 12.00% | 12.00% | 12.00% | 12.00% |
| Contract Indexation - BCIS | 8.00% | 8.00% | 8.00% | 8.00% |
| | | | | |
| Income | 23/24 | 24/25 | 25/26 | 26/27 |
| Council Tax | | | | |
| Council taxbase (after council tax reduction scheme) | 70,448.3 | 70,644.7 | 70,841.6 | 71,039.4 |
| Increase in CT Base | 1.0% | 1.0% | 1.0% | 1.0% |
| Band D (standard) (%) | 1.99% | 1.99% | 1.99% | 1.99% |
| Band D (adult social care precept)% | 1.00% | 1.00% | 1.00% | 1.00% |
| | | | | |
| Treasury Rates | 23/24 | 24/25 | 25/26 | 25/27 |
| PWLB Borrowing Rates (10-year) | 3.5% | 3.1% | 3.1% | 3.1% |

Political priorities

18. The Council remains committed to the delivery of key activity to meet the ambitions set out in the County Plan to deliver long-term benefits in supporting the local economy, communities and the environment. This delivery will be supported by the development of the 2023/24 budget and MTFS to align the council's financial resources with its political priorities.

Changes in funding 2023/24

19. Whilst early modelling suggests that Herefordshire will be in a stronger position following the implementation of the Government's Fair Funding Review, any potential increases following the review have not been assumed in the draft MTFS at this time as Central Government have yet to confirm a timeline for their implementation. The assumptions on which funding for 2023/24 has been estimated will require further work to understand the potential risks in the data which informs the calculations.

Results of early work

20. A high level exercise to identify options to reduce the budget gap and refine income and expenditure forecasts is currently underway to include a detailed review of each service area to consider options for savings and efficiencies and to understand the severity and impact of proposed changes upon residents and businesses. Where opportunities to mitigate pressures are identified, it will be important to assess whether options are realistic and achievable to deliver sustained savings over the medium term. This work will be driven by Directorates, supported by Finance and other support services as appropriate.
21. This exercise requires additional work and the output of the detailed review will be provided as part of budget preparation work over forthcoming months. This early preparatory work to understand future pressures will allow time within the budget setting timetable to refine plans and options.

22. Following initial discussions between Directors and Finance staff, work is underway to quantify potential corporate savings. Each Corporate Director, in consultation with portfolio holders, will be responsible for developing a plan to recover 2022/23 overspend and deliver recurrent savings for 2023/24 and the medium term planning period. It is unclear, at this stage, whether the actions identified will be sufficient to close the £21.6m budget gap.
23. If options identified do not fully mitigate budget pressures, the council's options to balance the budget include:
- a) Use of reserves
 - b) Increasing Council Tax, noting the requirement for a referendum to increase above the Government referendum limit
 - c) Continue to lobby for additional Government funding
 - d) Increasing fees and charges and optimising income
 - e) Influencing demand for services by working with partners and identifying efficiencies in working practices
 - f) Identifying further savings
 - g) Changing or reducing service levels for non-statutory services

Next steps

24. The pressures identified above must be mitigated in order to maintain the council's financial resilience, to ensure delivery of services within available resources and to minimise the impact on future financial sustainability.
25. Directors and Officers will continue to work to refine forecasts to inform the budget setting process for 2023/24 as per the proposed timetable as set out in Table 4 below.

Table 4: 2023/24 Proposed Budget Setting Timetable

| Action | Timeline |
|--|-----------------------|
| Scrutiny Management Board Meeting | 7 October 2022 |
| Local consultation on strategic capital priorities (3 weeks) | TBC |
| Focus groups | TBC |
| Online survey (5 weeks) | TBC |
| Social media consultation (5 weeks) | TBC |
| Government spending review announcement (estimated) | November 2022 |
| Cabinet - consultation outcomes and draft budget proposals | 24 November 2022 |
| Scrutiny Management Board (scrutiny of Cabinet report proposals) | 28 November 2022 |
| Scrutiny Management Board Budget Scrutiny Summit (TBC) | 2 December 2022 (TBC) |
| Scrutiny Management Board Meeting (report to Cabinet) | 9 January 2023 |
| Cabinet – final proposed budget | 26 January 2023 |
| Full Council – final budget for approval | 10 February 2023 |

Environmental Impact

26. The council provides and purchases a wide range of services for the people of Herefordshire. Together with partner organisations in the private, public and voluntary sectors we share a strong commitment to improving our environmental sustainability, achieving carbon neutrality and to protect and enhance Herefordshire's outstanding natural environment.
27. Whilst this budget process document will not detail specific environmental impacts, consideration is always made to minimising waste and resource use in line with the council's Environmental Policy. A specific environmental impact assessment for service specific budget proposals will be considered as appropriate to seek to minimise any adverse environmental impact and actively seek opportunities to improve and enhance environmental performance.

Equality duty

28. Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to –

- a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
 - b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
 - c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
30. The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services. As this report is a factual summary, we do not believe that it will have an impact on our equality duty.

Resource implications

31. Contained in the report.

Legal implications

32. The Local Government Finance Act 1992 requires a council to set a balanced budget. To do this the council must prepare a budget that covers not only the expenditure but also the funding to meet the proposed budget. The budget has to be fully funded and the income from all sources must meet the expenditure.
33. Best estimates have to be employed so that all anticipated expenditure and resources are identified. If the budget includes unallocated savings or unidentified income then these have to be carefully handled to demonstrate that these do not create a deficit budget. An intention to set a deficit budget is not permitted under local government legislation.
34. Local government legislation requires the council's S151 officer to make a report to the full Council meeting when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals. This is

done so that members will have authoritative advice available to them when they make their decisions.

35. The council's budget and policy framework rules require that the chairpersons of a scrutiny committee shall take steps to ensure that the relevant committee work programmes include any budget and policy framework plan or strategy, to enable scrutiny members to inform and support the process for making Cabinet proposals to Council.

Risk management

36.

| Risk / opportunity | Mitigation |
|---|---|
| The local Government Settlement does not include support for inflationary pressures. | A range of savings programmes and contingency plans are being developed. |
| The local Government Settlement announcement is delayed. | A two-stage approach to budget consultation will be adopted. |
| The recovery plans for 2022/23 are not delivered. | The Council holds a number of reserves to cover contingencies such as budget over runs. |
| Reputational risk with the council not having a clear plan in terms of council tax increases. | Central Government sets referendum limits as part of the local government settlement, |

Consultees

37. The council's constitution states that budget consultees should include parish councils, health partners, the schools' forum, business ratepayers, council taxpayers, the trade unions, political groups on the council, the scrutiny committees and such other organisations and persons as the leader shall determine.
38. Consultation on the 2023/24 budget will take place as per the Proposed Budget Setting Timetable in Table 4 above.

Appendices

Appendix 1: 2023/24 Budget Slides

Appendix 2: 2021/22 Quarter 4 Budget & Performance Report (Cabinet 26 May 2022)

Appendix 3: 2022/23 Quarter 1 Budget & Performance Report (Cabinet 29 September 2022)

Appendix 4: Earmarked Reserves and General Fund Balances at 31 March 2022 (Cabinet 29 September 2022)

Background papers

None.

Glossary

Minimum Revenue Provision (MRP) is the minimum amount which a Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in a Council's budget.

Medium Term Financial Strategy (MTFS) sets out the overall shape of the council's budget by determining the level of resources that will be available and how these are currently allocated between services. This provides a medium term framework to enable members and officers to develop detailed annual budget allocations.