

Title of report: Consultation outcomes and draft budget proposals

Meeting: Cabinet

Meeting date: Thursday 26 January 2023

Report by: Director of Resources and Assurance

Classification

Open

Decision type

Budget and policy framework

Wards affected

(All Wards);

Purpose

To recommend to Council the proposed 2023/24 budget and associated Medium Term Financial Strategy and the Treasury Management Strategy for recommendation to Council on 10 February 2023.

The proposed budget reflects current and expected service delivery requirements and the provisional local government settlement announced on 19 December 2022. Overall the base budget for 2023/24 is proposed to increase to fund budget pressures. Savings of £20.0m are required in 2023/24 and an increase in council tax of 4.99% (inclusive of 2% adult social care precept) is proposed to deliver a balanced budget.

The draft Medium Term Financial Strategy (MTFS), attached at appendix A, has been updated to reflect current assumptions and estimates of future year funding and service requirements in line with the County Plan.

The Treasury Management Strategy, attached at appendix D, includes the proposed borrowing and investment strategy, the council's expected minimum revenue provision and the associated prudential indicators which demonstrate that the council's proposed capital investment budget is affordable, prudent and sustainable.

Recommendation(s)

That: Cabinet recommend to Council for approval;

- a) the council tax base of 71,073.11 Band D equivalents in 2023/24;**
- b) an increase in core council tax in 2023/24 of 2.99%;**
- c) an additional precept in respect of adult social care costs of 2% applied to council tax in 2023/24 resulting in a total council tax increase of 4.99%, increasing the band D charge from £1,701.70 to £1,786.61 for Herefordshire Council in 2023/24;**
- d) the balanced 2023/24 revenue budget proposal totalling £193.3m, subject to any amendments approved at the meeting, specifically the net spending limits for each directorate as at appendix C;**
- e) the revenue budget includes £4.0m for All Ages Social Care to fund edge of care and prevention services for all ages and the continuation of support for low income households;**
- f) delegates to the section 151 officer the power to make necessary changes to the budget arising from any variations in central government funding allocations via general reserves;**
- g) the Medium Term Financial Strategy (MTFS) 2023/24 to 2026/27 at appendix A;**
- h) the Treasury Management Strategy at appendix D be approved; and**
- i) the responses to scrutiny committee recommendations to follow in a supplementary paper be approved.**

Alternative options

1. It is open to Cabinet to recommend alternative spending proposals or strategies; however, given the legal requirement to set a balanced budget, should additional expenditure be proposed compensatory savings proposals must also be identified. If it is proposed to spend less, the impact on service delivery of the proposed reduction should be considered.
2. Cabinet can agree a council tax increase above the referendum principle levels. This is not recommended as doing so would require the increase to be subject to a local referendum, incurring additional costs to the council.

Key considerations

3. The Medium Term Financial Strategy (MTFS), attached at appendix A, has been updated to reflect current spending and savings plans. It reflects the provisional financial settlement announced on 19 December 2022 and the current understanding of future years funding and responsibilities.
4. Funding and service demand pressures continue, a balanced budget for 2023/24 is proposed. The proposal includes a 4.99% total increase in council tax and central government funding announced in the provisional financial settlement.
5. The proposed 2023/24 revenue budget is based on an assumed total council tax increase of 4.99%, 2.99% increase in core council tax and a 2% adult social care precept. This increases the band D equivalent charge to £1,786.61 representing an increase of £7.08 per month. This

is the maximum increase permitted, a higher increase would require the support of a referendum.

6. The 2% adult social care precept will generate approximately £2.5m of additional income to fund pressures identified in the Community Wellbeing Directorate reflecting both demand and cost for services required for the county's residents.

Provisional 2023/24 Local Government Financial Settlement

7. The provisional settlement published on 19 December 2022 is for one year only. This is the fifth consecutive one-year local government finance settlement rolling forward key elements of the previous year alongside increases in major pressures and priority areas, such as social care. The settlement did confirm:-
 - a. Council Tax –the council tax referendum limit will be 3% for local authorities, with social care authorities allowed an additional 2% social care precept.
 - b. Business Rates Retention – the business rates multiplier has been frozen for 2023/24. The under-indexing multiplier grant has been increased to compensate local authorities that would have been received from an increase in the multiplier.
 - c. 2023/24 Services Grant – this has reduced in 2023/24 to remove funding for the National Insurance Contribution increase and the funding increase for Supporting Families: £1,268k for Herefordshire.
 - d. Revenue Support Grant – this has been increased nationally by 10.1%, in line with what would have been the increase to the multiplier.
 - e. Social Care Grant – the Social Care Grant has increased by £5,775k for Herefordshire. Its distribution is based on the Adult Social Care Relative Needs Formula and has taken into account the ability of authorities to raise the additional social care precept.
 - f. Social Care Funding (Market Sustainability and Fair Cost of Care Fund) is included in the Core Spending Power figures for 2023/24 at £2,062k for Herefordshire. This has been distributed based on the Adult Social Care Relative Needs Formula.
 - g. Lower Tier Services Grant – This has been discontinued for 2023/24 onwards.
 - h. Rural Services Delivery Grant – There has been no change to this grant, 2023/24 amounts remain the same as 2022/23: £5,353k for Herefordshire.
 - i. New Homes Bonus – a further year of New Homes Bonus has been added at £231k for Herefordshire. There will be no further legacy payments and the final legacy payment was made in 2022/23.
 - j. Local Government Funding Reform – The settlement confirmed a further delay to the implementation of the Fair Funding Review until 2025/26.

2023/24 base budget proposed and savings plan

8. The detailed base budget proposed for 2023/24 is summarised below and detailed in appendix C with the savings plans detailed in appendix B.

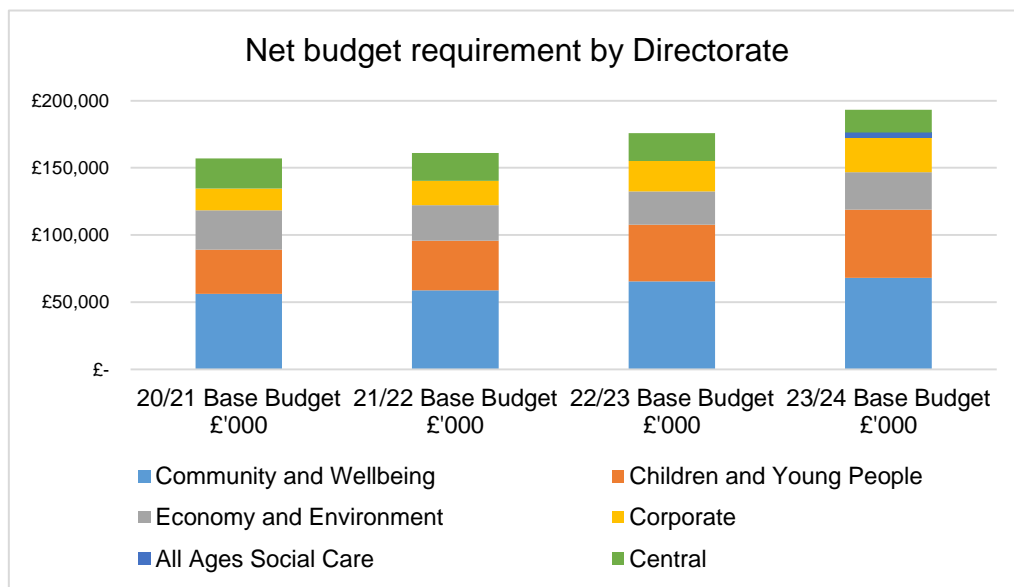
Detail	22/23 base budget £'000	Pressures £'000	Savings £'000	New budget for 23/24	23/24 proposed budget £'000
Community and Wellbeing	65,399	8,830	(6,105)		68,124
Children and Young People	42,262	13,050	(4,500)		50,812
Economy and Environment	24,787	5,148	(2,200)		27,735
Corporate	22,634	4,226	(1,330)		25,530
All Ages Social Care				4,000	4,000
Sub Total	155,082	31,254	(14,135)	4,000	176,201
Central	20,826	2,181	(5,900)		17,107
TOTALS	175,908	33,435	(20,035)	4,000	193,308
Funded by:-					
Council tax	119,549				126,980
Business rates	38,284				40,614
Collection fund surplus	1,260				1,400
Revenue support grant	663				983
Rural sparsity delivery grant	5,353				5,353
Social care support grant	7,691				13,466
Adult Social Care Discharge Fund					951
Market Sustainability & Fair Cost of Care	594				2,062
Lower Tier Services Grant	264				
Services Grant	2,250				1,268
New Homes Bonus					231
TOTALS	175,908				193,308

9. Budget pressures are shown in the table below:

Pressure	Detail	2023/24 £'000
Community Wellbeing		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,608
Demand pressures	Based on most recent client numbers and weekly care costs. This pressure includes adjustments to reflect planned activity in the service.	1,925
Service redesign	'Take the Current' Business Case re Library/Museum projects.	159
Inflation	Includes Provider fee uplifts and spot placements (8% non-contractual uplift) and contractual inflation based on a blend of RPI & AWE indices.	5,870
Removal of one-off prior year	Represents draw down for seed funding (Talk Community) and Fair Cost of Care one-off funding	(732)
	Sub-total	8,830
Children & Young People		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,897
Demand pressures	Demand pressures reflect increased in Looked After Children and Agency Fostering placements.	5,221
Transformation Activity	Additional staff to support transformation under Children's Improvement Plan.	4,498
Inflation	Inflation assumed at 6% for placements and the relevant rate for other areas of spend.	1,434
	Sub-total	13,050
Economy & Environment		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	1,090
Demand pressures	Reflects additional demand for Home to School Transport and Concessionary Travel in 2022/23.	469
Energy Inflation	Reflects inflationary increase on energy.	993
Inflation	Inflation assumed at 8% or contract specific rate.	2,596
	Sub-total	5,148
Corporate Services		
Pay award	Includes the rollover impact of 22/23 pay award above the 2% budgeted in 23/24. Based on approved establishment and includes a vacancy factor.	822
Demand pressures	Changes in charging mechanism for a number of key ICT systems plus £900k historic property savings.	1,702
Service redesign	Increase in staff capacity in Legal and HR & OD.	665

Inflation	Contract inflation based on blend: ICT 12%, Hoople 7%.	1,037
	Sub-total	4,226
Central		
Financing Costs	Increase in interest payable and Minimum Revenue Provision (MRP) aligned to Capital Programme.	2,181
	Sub-total	2,181
	TOTAL PRESSURES	33,435

10. The base budget shows the net budget position; the gross budget includes the dedicated school's grant, housing benefit subsidy, improved better care fund and public health grant. The change in net budget per Directorate is shown in the graph below.



11. If the final settlement provides additional monies to the draft base budget proposed above, unless the use of those funds is specified by Government, Cabinet will seek the views of the scrutiny committees to determine how extra funding should be deployed. In the interim, this funding will be allocated to reserves.

Reserves

12. Earmarked reserves are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose, usage and basis of transactions needs to be clearly defined. The overall level of reserves balances is reported to Cabinet at least annually, the last report to Cabinet was in September 2022. A forecast of the reserve position to 31 March 2023 is attached at appendix E.

Community impact

13. The MTFS and budget demonstrate how the council is using its financial resources to deliver the priorities within the proposed corporate plan.

14. The council is committed to delivering continued improvement, positive change and outcomes in delivering our key ambitions.
15. In accordance with the principles of the code of corporate governance, the council is committed to promoting a positive working culture that accepts, and encourages constructive challenge, and recognises that a culture and structure for scrutiny are key elements for accountable decision making, policy development, and review.

Environmental Impact

16. 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.
17. Whilst this overarching budget setting 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 the 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

18. 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.
19. A service specific equality impact assessments for the service specific budget proposals will be completed as required to assess the impact on the protected characteristic as set out in the Equality Act 2010. The duty means that the potential impact of a decision on people with different protected characteristics is always taken into account when these assessments have been completed then we will consider mitigating against any adverse impact identified. Where additional governance is required to support possible service delivery changes the impact of a decision on people with different protected characteristics will be fully detailed and disclosed in that governance decision report.

Resource implications

20. The financial implications are as set out in the report. The ongoing operational costs including, human resources, information technology and property resource requirements are included in the draft budget and will be detailed in separate governance decision reports as appropriate.

Legal implications

21. When setting the budget it is important that councillors are aware of the legal requirements and obligations. Councillors are required to act prudently when setting the budget and council tax so that they act in a way that considers local taxpayers. This also covers the impact on future taxpayers.
22. In acting prudently, the council has an obligation to determine whether any planned council increase is excessive (based on a set of principles defined by the Secretary of State, and approved by the House of Commons).
23. The level of council tax rise does not meet the definition of an excessive increase so can be approved without the need for a referendum.
24. 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.
25. 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.
26. The council must decide every year how much they are going to raise from council tax. The decision is based on a budget that sets out estimates of what is planned to be spent on services. Because the level of council tax is set before the year begins and cannot be increased during the year, risks and uncertainties have to be considered, that might force higher spending more on the services than planned. Allowance is made for these risks by: making prudent allowance in the estimates for services; and ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient.
27. 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 (the statement is contained within the risk management section of this report). This is done so that members will have authoritative advice available to them when they make their decisions. As part of the Local Government Act 2003 members have a duty to determine whether they agree with the S151 statutory report.
28. 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.
29. Section 106 of the Local Government Finance Act 1992 precludes a councillor from voting on a calculation which might affect the calculation of the council's budget, if he or she has an outstanding council tax debt of over two months. If a councillor is present at any meeting at which relevant matters are discussed, he or she must disclose that section 106 applies and may not vote. Failure to comply is a criminal offence.

Risk management

30. Section 25 of the Local Government Act 2003 requires the S151 officer to report to Council when it is setting the budget and precept (council tax). Council is required to take this

report into account when making its budget and precept decision. The report must deal with the robustness of the estimates included in the budget and the adequacy of reserves.

31. The budget has been updated using the best available information; current spending, anticipated pressures and the provisional 2023/24 funding settlement.
32. The known most substantial risks have been assessed as part of the budget process and reasonable mitigation has been made where possible. Risks will be monitored through the year and reported to cabinet as part of the budget monitoring process.
33. We are maintaining a general fund reserve balance above the minimum requirement, ear marked reserves and an annual contingency budget to manage these risks.
34. The risks and mitigating actions are shown in Appendix M5 of the MTFs, copied below:-

Key Financial Risk	Likelihood	Impact	Mitigating Action
Not delivering required improvements The council must address the statutory direction and improvements across Children's Services	Low	Medium	The Children's Improvement Board is working with the Department for Education and the appointed Commissioner for Children's Services and resources have been allocated to address required transformation and improvement. Performance against the Improvement Plan is monitored and reported on a quarterly basis.
Unexpected events and emergencies By its nature, the financial risk is uncertain	Low	High	The Council maintains a strategic reserve at a level of between 3 and 5% of its revenue budget for emergency purposes. The level of this reserve at 31 March 2022 was 9.6m (6.0% of budget). Additionally, national resources have historically been provided to support national issues.
Increasing demand for Adult and Children's Social Care Demand for Children's services continue and demand for adult services increases as the population ages.	High	Medium	Demand led pressures are reflected within our spending plans. In year monitoring of performance enables Directorates to forecast trends and identify changes in demand. Talk Community and strength Based Assessment have evidenced managing demand and investing in Early Help and Prevention will support our response to increasing demand.
Potential overspend and non-delivery of savings required to balance the budget	Medium	Medium	High risk budget areas have been identified and financial support is targeted in these areas. Robust and regular financial monitoring which is reported to Leadership Teams and Cabinet enables the identification actions to mitigate the risk of overspends.
Volatility in Government funding streams The government settlement for 2023/24 is a one year settlement; the assumed funding for the	High	Medium	The MTFs reflects prudent estimates and assumptions in the financial planning over the medium term period where it is acknowledged that uncertainty over future funding exists.

MTFS period is not confirmed			
Interest and Inflation There is uncertainty over interest and inflation rates	Medium	Medium	The Treasury Management Strategy is informed by latest forecast, as provided by our Treasury Management Advisors. Increases in borrowing rates will be offset by increases in investment returns.

Consultees

35. 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.
36. A series of 12 local budget public consultation events were held between 25 November and 17 December 2022. Additional engagement with community groups took place through a Community Partnership event and an event with the business community. The consultation presented high-level options to contribute towards balancing the council's budget for 2023/24 and their likely impact. These options included reducing and transforming services, increasing charging for services and increasing council tax. There were 428 participants across these local events. There was support for continuing discounts for council tax for those most in need, raising income in ways which mean residents can afford it to fund services and helping communities to help themselves.
37. An online public consultation was open between 15 December and 3 January 2023. A total of 243 responses were received to the online questionnaire.
38. Scrutiny Management Board will be consulted with on 17 January 2023 and their recommendations for consideration by Cabinet will be circulated as a supplementary paper to this agenda item.

Appendices

- Appendix A Medium Term Financial Strategy 2023/24 to 2026/27
- Appendix B Directorate Savings Plans 2023/24
- Appendix C Proposed Directorate Base Budgets 2023/24
- Appendix D Treasury Management Strategy 2023/24
- Appendix E Reserves
- Appendix F Impact Report
- Appendix G Online Budget Consultation Report

Background papers

None identified.