

Name of meeting: Corporate Scrutiny Panel
Date: 16 January 2023

Title of report: Council financial update

Purpose of the report

To update Corporate Scrutiny Panel on current financial issues impacting on the Council

Key decision – is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	Yes
Key decision - is it in the <u>Council's Forward Plan (key decisions and private reports)</u>	Key decision - Yes
The Decision - Is it eligible for “call in” by <u>Scrutiny</u>?	No
Date signed off by Strategic Director & name	Rachel Spencer-Henshall, 6 January 2023
Is it also signed off by the Service Director for Finance	Eamonn Croston, 6 January 2023
Is it also signed off by the Service Director – Legal, Governance & Commissioning ?	Julie Muscroft, 6 January 2023
Cabinet member <u>portfolio - Corporate</u>	Cllr Paul Davies

Electoral wards affected: All

Ward Councillors consulted: All

Public or private: Public

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations.

1. Summary

- 1.1 The Council financial update report presented to Corporate Scrutiny Panel (CSP) on 28 November 2022 set out the following;
- i) a further in-year update on the very significant cost of living crisis impacted in-year financial position as at Quarter 2 financial monitoring (Q2 monitoring report presented to Cabinet on 16 November 2022) ;

- ii) current Medium Term Financial Strategy (MTFS) development in preparation for 2023/24, (update report presented to Budget Council on 7 September 2022), and
- iii) a high level 'heads up' on the Government's Autumn Budget Statement announcement on 17 November, and what the implications of this might be for local government funding for 2023/24.

1.2 This report presents a further high-level update on the further development of key funding and spend assumptions to inform the forthcoming annual budget report for 2023/24, including the implications of the local government provisional financial settlement for 2023/24; detailed information released by Government on 19 December 2022. Alongside this is a further update on progress against the in-year 2022/23 financial position.

Council Medium Term Financial Strategy (MTFS) Re-fresh 2023/24

1.3 The 2023/24 MTFS update report presented to Council on 7 September 2022 was heavily informed by the roll forward of significant 2022/23 Cost of Living pressures into 2023/24, alongside a starting point general fund revenue budget gap already of £16.4m for 2023/24. The impact of Cost of Living pressures largely accounted for an overall increase in the general fund revenue budget gap to £41.3m for 2023/24. These included a pay award assumption at 5% for 2023/24 (current plan had assumed 2%), and continuing inflationary pressures on energy, fuel, food.

1.4 The financial update presented to CSP on 28 November 2022 indicated at that time that the baseline £41.3m budget gap forecast for 2023/24 could increase significantly, in light of the following ;

- i) wash through impact of worsening in-year 2022/23 cost of living and other in-year pressures by £10m (increase from £24m to £34m net general fund revenue spend pressure) as set out in the Council's Quarter 2 forecast financial monitoring position, and
- ii) continuing volatility in global and national economic conditions including energy price volatility forecasts for 2023/24.

Autumn Budget Statement – 17 November 2022

1.5 Alongside the above, the Service Director – Finance gave a summary high level presentation to CSP on 28 November on the impact of the Government's 17 November Autumn Budget statement announcement, and what that might mean for local government finance.

1.6 The Government context for its headline Autumn Statement announcement was a £55 billion fiscal deficit in public finances, driven largely by unprecedented headwinds; pandemic and Ukraine war, and to deal with these headwinds, Government's intention was to set out a balanced plan for 'stability'.

1.7 The announcement also included an accompanying Office of Budget Responsibility (OBR) medium term forecast, including expectation of peak average inflation in 2022 year at 9.1%, reducing to 7.4% in 2023 and 0.6% in 2024.

- 1.8 National economic growth (Gross Domestic Product or GDP) was expected to average at 4.2% in 2022, contract by 1.4% in 2023 and increase by 1.3% in 2024; further annual growth of about 2.6% the following 2 years. Effectively, the latter part of 2022 was anticipated to be the start of a global recessionary period which would last through 2023.
- 1.9 Notwithstanding the Government's stated fiscal debt position, as part of its stability agenda, Government included a number of headline proposals including a significant increase in social care funding of £2.8bn in 2023/24, increasing by a further £1.9bn to £4.7bn in 2024/25. These headline figures include an assumption by Government that Councils would take up the additional adult social care precept flexibility also included in the autumn statement.
- 1.10 The announcement therefore included further Government flexibility for Councils with social care responsibilities to increase the adult social care precept from 1% to 2% in 2023/24 and likewise a further increase from 1% to 2% in 2024/25.
- 1.11 The announcement also confirmed the National Living Wage uplift for 2023/24 at 9.7% ; from £9.50 per hour (23 years and over), to £10.42 from April 2023 onwards.
- 1.12 While the overall increase in social care funding was acknowledged, the working assumption pending the detail behind the headlines, as discussed at CSP on 28 November, was that the additional funding, overall, ensured that the Council's existing social care cost and demand growth assumptions in existing budget plans for 2023/24 and 2024/25, could continue to be fully funded , as already assumed. Alongside this, the additional costs to care providers from the scale of the NLW uplift, could also be met by the Council, through the additional Government funding.
- 1.13 In summary, the headline additional social care funding was assumed to 'de-risk' our existing funding assumptions across the 2023-25 period, and manage the impact of the NLW uplift for 2023-24 as appropriate, which was significantly higher than our budgetary assumptions.
- 1.14 Elsewhere, there was an additional £2.3 billion for schools in both 2023/24 and 2024/25, and £3.3 billion additional funding for the NHS in both 2023/24 and 2024/25.
- 1.15 Other headline announcements included confirmation of the social housing rent uplift to be capped at 7% for 2023/24 only (and not September 2022 CPI+1% as per current Government policy).
- 1.16 The ,annual increase in state pension and benefits uplifts for 2023/24 was set at 10.1% (in line with September 2022 CPI), and a range of continued cost of living household support measures in 2023/24 were also announced; including £1bn Household Support Fund , household support with energy bills at a higher £3,000 indicative cap (up from £2,500), plus targeted £900 support to households on means tested benefits, £300 to pensioner households, £150 for households in receipt of disability benefit, and £200 for households on alternative fuels.
- 1.17 The announcement also confirmed an overall Council Tax (CT) referendum limit increase from 2% to 3% in 2023/24 and 2024/25, alongside the Adult Social Care precept increase from 1% to 2% from 2023/24; Overall CT increase flexibility from 3% to 5% in 2023/24 and 2024/25.

Provisional Local Government (LG) financial settlement for 2023/24

- 1.18 Subsequent to the Autumn Budget Statement on 17 November, the Local Government Financial Settlement was announced by Government on 19 December 2022 and will be subject to the usual 4 week consultation process which runs to 16 January 2023.
- 1.19 The provisional Settlement sets out the detail of the headline Autumn Statement announcements at an individual Council level for 2023/24, along with other relevant information, and this is summarised in the following sections below.

National Headlines

- 1.20 The headline Government announcement was that an additional £5bn funding would be made available to Councils in 2023/24, representing an average overall 9.2% cash increase with a minimum individual Council increase being guaranteed at 3%. The key detail in the provisional settlement pretty much mirrored the Autumn Statement headline announcement.
- 1.21 Kirklees equivalent cash increase was 9.6%, and this was broadly consistent across the region with Bradford also at 9.6%, Leeds at 9.3%, Calderdale at 9.8% and Wakefield at 9.5%.
- 1.22 The key highlights for Kirklees are summarised below :

Funding source	2022/23	2023/24	Increase/ decrease (-)
	£ millions	£ millions	£ millions
Settlement Funding Assessment	96.2	101.3	5.1
Compensation for over-indexing of Business Rates multiplier	8.5	14.6	6.1
Council Tax requirement	206.9	219.2	12.3
Improved better care funding	17.8	17.8	-
Social care grant	18.5	29.8	11.3
Adult Social Care (ASC) Mkt Sustainability & Improvement fund	1.3	4.4	3.1
Discharge fund	-	2.5	2.5
New Homes Bonus	1.9	0.3	-1.6
Services Grant	5.7	3.2	-2.5
Lower Tier Services grant	0.6	-	-0.6
Adjustment for rolled in grants	1.4	-	-1.4
Total	358.7	393.0	34.3

- 1.23 The net increase in overall funding from 2022/23 to 2023/24 against the Government funding sources set out in the Table above equates to £34.3m; equivalent to the 9.6% headline cash increase quoted in paragraph 1.21 above.

- 1.24 The Council tax requirement uplift at £12.3m above reflects the Government assumption that Councils will maximise the overall 5% Council Tax uplift flexibility allowed by Government for 2023/24 without triggering the referendum threshold; split 3% general Council Tax and 2% Adult Social Care precept.
- 1.25 Elsewhere, there are a number of other funding changes, noting the highlighted ones relating specifically to grant funding allocated against social care activity with an uplift of £16.9m between 2022/23 and 2023/24. The Discharge Fund will be allocated through the pooled Better Care Fund via the West Yorkshire Integrated Care Board. The ASC Market Sustainability & Improvement Fund was previously set aside through the 2021 Spending review to help fund Social Care funding reforms that have now been put back until after the next general election, The funding set aside for this has now been released instead to support existing social care demand and cost pressures.
- 1.26 The Council's 2023-24 MTFS report to Council on 7 September 2022 had assumed an expected overall Government funding uplift in 2023/24 of about £23.7m. While there is a difference of about £10.6m relative to the figures included in the above Table, about £2.4m of this reflects the additional 1% CT flexibility for 2023/24. The difference of £8.2m (net) will effectively offset unbudgeted cost of living inflationary pressures across a range of adults and children's care provider costs; including the impact of the 9.7% National Living Wage uplift in 2023/24.
- 1.27 This also followed concerted lobbying from Councils with social care responsibilities prior to the Autumn Statement announcement about the risk of significant destabilisation of the social care system due to cost of living impacted escalating care provider costs, not just the impact on directly provided Council activity.
- 1.28 The above will be factored accordingly into updated fund and spend assumptions as part of the forthcoming 2023/24 annual budget report.

Council Tax Base

- 1.29 The annual Council Tax Base (CTB) for 2023/24 will be presented to Cabinet on 17 January 2023. The CTB set out in this report will then be used to inform the demand on the Collection Fund amount to be considered at Budget Council on 8th March 2023.

Schools Funding

- 1.30 Also on the same Cabinet agenda for 17 January 2023, the schools funding allocation for 2023/24 will be set out against the 3 funding blocks that make up the Dedicated Schools Grant. The report reflects the headline figures included in the Autumn Statement announcement on 17 November.

Housing Revenue Account

- 1.31 Government confirmed as part of the Autumn Statement announcement, the 7% HRA rent uplift for 2023/24 only, and 7% was incorporated into the Councils annual HRA rent setting report for 2023/24, endorsed at Cabinet on 21 December 2022. This uplift will be incorporated into the finalised budget proposals to be presented as part of the forthcoming 2023/24 annual budget report.

Extract from the Local Government finance policy statement 2023-24 to 2024-25 issued 12 December 2022

- 1.32 This policy statement, which preceded the provisional 2023/24 financial settlement on 19 December, included a government comment that it noted the significant increase in some local authority reserves over the 2 years of the pandemic.
- 1.33 Government further stated that it encouraged local authorities to consider how they can use their reserves to maintain services in the face of immediate inflationary pressures, taking account, of course, of the need to maintain appropriate levels of reserves to support councils' financial sustainability and future investment.
- 1.34 And that in order to support council members and local electorates to understand the reserves that their authorities are holding and what they are used for, Government will also explore releasing a user-friendly publication of the reserves data currently collected in the Local Authority Revenue Expenditure and Financing Outturn statistics. We will consult with trusted partners, including the Local Government Association, about doing this.
- 1.35 Government is therefore expecting Councils to use their own reserves to manage immediate inflationary pressures; the latter which are expected to wash through into future years, whereas reserves are "one-off" resources and clearly Government expectations has significant implications for Councils financial resilience and sustainability in a period of heightened volatility and unprecedented cost of living impacted pressures.

Capital Plan

- 1.36 As previously reported to CSP, the Council's existing multi-year capital plan is currently subject to a more fundamental corporate review and affordability assessment.
- 1.37 The review covers prioritisation, phasing flexibility including impact and risk assessment, funding alternatives to prudential borrowing, stretching the plan over a longer time frame, and subsequent proposals brought forward through the remainder of the current budget round for member consideration.
- 1.38 The overall affordability of the plan will be assessed against two key aspects. The first is annual revenue service debt requirements built into the baseline spend forecasts. The second aspect is current significant inflationary pressures on capital costs, which impact across the totality of the plan. Again, the outcome of this review will be incorporated into the forthcoming 2023/24 annual budget report

In-year financial position - 2022/23

- 1.39 The Quarter 2 financial monitoring report to Cabinet on 16 November 2022 indicated that officers would consider a range of further management actions to mitigate in-year pressures as far as possible, and current progress against these will be reported verbally to CSP on 16 January 2023.

2. Information required to take a decision

- 2.1 The issues highlighted in section 1 of this report will be considered at CSP.

3 Implications for the Council

3.1 The Council's budget plans support the overall delivery of the following Council objectives and Priorities within available resources:

- i) Working with People
- ii) Place Based Working
- iii) Climate Change and Air Quality
- iv) Improving Outcomes for Children
- v) Cost of living impact on residents

Other (e.g Financial, Legal or Human Resources)

- 3.2 A robust Medium Term Financial Plan and budget strategy is a key element of financial and service planning. The cost of living crisis as set out in this report presents a number of emerging and potentially significant pressures in 2022/23 and will require further and significant in-year management actions to address.
- 3.3 Alongside this, following the 2023-24 MTFS update report to Council on 7 September, and ongoing review of global, national, regional and local factors that continue to impact on the extent of the Council's financial challenge for 2023/24 which will be significant, budget proposals will be considered over the remainder of the current budget round ; ultimately for consideration at Budget Council on 8 March 2023.

RISK ASSESSMENT

- 3.4 The financial update presented in this report is based on a range of local, national and international intelligence, and risk assessments underpinning current and future funding and spend assumptions, acknowledging that the extent of these are all potential risk factors to the delivery of balanced budget plans over the medium term.

4. Consultees and their opinions

- 4.1 This report is based on consultation with the Council's Executive Team and Cabinet members in assessing the current issues, risks and factors to be addressed.

5. Next Steps

- 5.1 The Council's Chief Finance Officer (& Service Director, Finance) will co-ordinate the consideration of emerging budget proposals to inform the 2023/24 annual budget report to be presented to Cabinet on 21 February and subsequently at Budget Council on 8 March 2023, informed by updated funding and spend assumption considered in this update report to CSP, post the 2023/24 provisional financial settlement announcement on 19 December 2022.

6. Cabinet portfolio-holders recommendations

That the contents of this report be noted and discussed.

7. Officer recommendations and reasons

To note and consider the content of this report.

8. Contact Officer

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9. Background papers and History of Decisions

Annual budget report 2022/23 & future years - Budget Council, 16 February 2022
Financial Update report 2022/23 - Corporate Scrutiny Panel, 5 July 2022 ;
Quarter 1 financial monitoring report 2022/23 – Cabinet, 9 August 2022
Quarter 2 financial monitoring report 2022/23 – Cabinet 16 November 2022
2023/24 Medium Term Financial Strategy update report – Cabinet 5 September /
Council 7 September 2022
Government Autumn Statement announcement 17 November 2022
Government 2023/24 provisional local government financial settlement
announcement 19 December 2022
HRA rent setting report 2023/24 – Cabinet 21 December 2022
Schools funding allocation 2023/24 – Cabinet 17 January 2023
Council tax base report 2023/24 – Cabinet 17 January 2023

10. Service Director responsible

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