

Westmorland and Furness Shadow Authority Cabinet

Date: 11 November 2022

Title: Draft Budget 2023/24 Process
and Medium-Term Financial Plan

Report from: Councillor Andrew Jarvis, Cabinet Member for Finance

Report Author: Paul Sutton, Interim s151 Officer

Wards: All

Key Decision: No

1.0 Purpose/Summary of report

- 1.1. The purpose of this report is to provide Members with an update on progress of the approach to producing a draft 2023/24 revenue budget and medium-term financial plan for the new Westmorland and Furness Council that will come into existence on 1st April 2023.
- 1.2. The Budget 2023/24 and Medium Term Financial Plan will need to be approved by the Shadow Authority in February 2023 and will require the bringing together of the existing financial plans for the sovereign district authorities and disaggregating the county council financial plans, so that the new unitary has its own financial strategy.
- 1.3. The purpose of the MTFP is initially to set the scene and give an early indication of the financial position and reductions required to deliver a balanced budget.
- 1.4. As well as the complexities of creating the new unitary authority through local government reorganisation, this report also includes context on the continued uncertainty and expected constraints around Local Government funding along with the areas of risks and opportunities that need to be explored.
- 1.5. This report presents the options available for the financial assumptions that will determine the 2023/24 budget position and the approach to ensuring that a balanced budget for 2023/24 is achieved.

2.0 Recommendation

2.1 It is recommended that the Shadow Authority Cabinet;

- (1) Notes the progress of the approach to producing a draft 2023/24 revenue budget and MTFP; and**
- (2) Notes options available for the financial assumptions that will determine the 2023/24 budget position**
- (3) Notes the continued uncertainty and expected constraints around Local Government funding along with the areas of risks and opportunities that need to be explored**
- (4) Notes the rapidly changing economic and political environment and continued uncertainty in relation to the Governments fiscal plan**

3.0 Background and Proposals

Background

- 3.1 The Council is legally obliged to set a balanced budget in advance of each new financial year. Constructing a budget that is robust, deliverable and understood by Members, budget holders and residents is a process that takes a significant amount of preparation, with the engagement of key stakeholders.
- 3.2 This is particularly the case for a new Council, with the disaggregation of existing services, the establishment of a new organisation and with newly elected members.
- 3.3 This report sets out the latest estimated funding position, budget pressures, key financial risks and challenges influencing the development of Westmorland and Furness Council's financial plans for 2023/24 and the ongoing financial impact of those plans.
- 3.4 It presents an update on the strategic financial planning work that has been undertaken since the report to Shadow Authority Cabinet on 20 July 2022 which set out proposals for disaggregating and aggregating the finances of the existing sovereign authorities within Cumbria.
- 3.5 The disaggregation and aggregation work is required for 2 main purposes:
 - To form a basis for budget setting

- To inform DLUHC and other relevant Government departments how the funding previously allocated to Cumbria County Council and the six district councils should be split for the 2023/24 finance settlements – and until the Fair Funding review or other new allocation bases are agreed nationally.

Financial Planning Process

- 3.6 The creation of a new unitary council provides the opportunity to transform and improve local services. This Council aims to take a fresh approach to the delivery of inclusive services that will improve the health and wellbeing of our residents.
- 3.7 The draft budget and medium-term financial plan set the framework for how the Council will plan to use its financial resources to fund the activity to deliver on the Council’s vision and priorities as agreed in the Council Plan.
- 3.8 All 7 sovereign council have set a balanced budget for 2022/23, however for 2023/24 most had a budget gap and collectively these totalled £32m as shown in Table 1 below.

Table 1 – Sovereign 23/24 Budget Gap

Authority	2023/24 £'m
Cumbria County Council	20
Allerdale	3
Barrow	1
Carlisle	2
Copeland	4
Eden	0
South Lakeland	2
Total 2023/24 Sovereign Budget Gap	£32m

- 3.9 This report sets out the work carried out to date and the work required as part of the strategic planning process that will enable a Medium-Term Financial Plan to be prepared for 2023/24 – 2027/28 and approved and balanced budgets to be produced for 2023/24.

Process and Principles

- 3.10 The initial disaggregation and aggregation process has now been undertaken in line with the agreed Strategic Financial Planning principles and 2 phase process -
- Disaggregate and aggregate major funding streams (Settlement Funding Assessment and grants) based on 2022/23 allocations
 - Estimate proposed resources for Westmorland and Furness

- Estimate council tax income and retained business rates income based on the latest returns from each of the billing authorities
- Estimate projected funding allocations for 2023/24 based on disaggregation and aggregation and assumptions for funding changes in 2023/24

3.11 As reported, this work will be iterative and will continue to be updated as more data is received.

3.12 The application of the principles to disaggregation and aggregation will affect the distribution of budgets and funding and could potentially have a significant impact on the future financial sustainability of all the new organisations.

3.13 It is important to remember that there is no additional funding for Cumbria for LGR so all spend for delivery of the LGR programme and the costs of delivering services in the future must be achieved within the existing Cumbria funding envelope.

Funding – Adjusted 2022/23 position

3.14 The Council’s net budget has three main funding sources – Council Tax, Business Rates and Government Grants. Within the net position it also includes the Fees and Charges for specific services.

3.15 The principles of allocating this core funding have been applied to the 2022/23 funding. High level assumptions were initially applied but work has now been undertaken to refine these assumptions and improve the accuracy of the funding disaggregation.

3.16 National formulas have been used to reflect relative need and these formulas have been updated to the latest data available.

3.17 This has resulted in a Core Funding allocation – 2022/23 for Westmorland and Furness of £224m as shown in Table 2 below

Table 2 – Indicative Core Funding allocation

Source	2022/23 £'m
Retained Business Rates	51
Council Tax	144
Non service specific/general/corporate grant	29
Indicative Core Funding	£224m

Expenditure – adjusted 2022/23 position

3.18 Officers have combined the 2022/23 detailed budgets for district and county at the cost centre and nominal level. One off budgets and internal charging have been removed to make the baseline budgets as comparable across all authorities.

3.19 Revenue budgets have been aggregated and disaggregated using proposed principles many of which are consistent with the principles being adopted for the disaggregation and aggregation of funding. These have been informed by services and have used data from the data hub to maintain consistency and quality assurance.

3.20 The disaggregation principles used were:

1	Location Service Delivered: e.g. location of assets - buildings, parks, geographic footprint of service
2	Residence of service user: e.g. 'Ordinary Residence' principle for Social Care, where split may be based on 'home' postcode of service user, not location service is delivered
3	Population: e.g. where costs/income based upon demand/usage. May include whole population or sub-set (e.g. 0-17, 18-64, 65+)
4	Other Cost/Income drivers: underlying drivers for service areas, e.g. road length, FTE 's, number of households, council tax base or business rates tax base, demand data, activity data, performance data
5	Funding Formula: split prescribed within funding terms and conditions e.g. Dedicated Schools Grant (DSG), Public Health Grant, Better Care Fund (BCF), Improved Better Care Fund (IBCF) may have specific grant formula / data to allocate the funding. Work ongoing to review formula's where seen as out of date
6	Technical: disaggregation to follow responsibility e.g. corporate costs such as residual pension, teacher additional pension, MRP –specialist advice being provided, depreciation (follows assets split)

3.21 These have been applied to the current 2022/23 baseline budget and this has resulted in an initial Net revenue budget for 2022/23 for Westmorland and Furness of £220m as shown in Table 3 below.

Table 3 – Indicative Net Revenue Expenditure Budget

	2022/23 £'m
Gross Expenditure	518
Gross income	298
Indicative Net Revenue Expenditure Budget	£220m

3.22 The disaggregation and aggregation of the funding and expenditure for 2022/23 has been undertaken using national formulas to reflect relative need updated for the latest available data, actual data for Council Tax and Business Rates and the impact of historic local

decisions. The outcome is a budget surplus for Westmorland and Furness of (£4m) as shown in Table 4 below.

Table 4 Westmorland and Furness Baseline Budget Gap 2022/23

	Westmorland & Furness £'m 2022-23
Indicative Core Funding	224
Net Revenue Budget	220
Baseline Gap 2022/23	(£4m)

Opening Position – 2023/24 onwards

3.23 The 2022/23 base net revenue budget surplus of (£4m) for Westmorland and Furness needs to be overlaid with the funding and expenditure changes which have been included in the existing councils MTFPs so that the opening gap for the 2023/24 can be determined.

Changes compared to 2022/23 baseline

3.24 Several funding and expenditure changes that are emerging or already included in the existing medium term financial plans need to be included in the opening position to produce the estimated budget gap for 2023/24 as shown in Table 5 below:

Table 5 Westmorland and Furness Current Budget Gap 2022/23 to 2023/24

	Westmorland & Furness	
	£m	£m
Baseline Gap 22/23	(4)	
Recurring Pressures 22/23	5	
		1
Forecast Pressures 23/24		
Included in existing MTFP's	8	
Additional Economic Pressures	12	
Additional Net Investment Requirements	5	
Additional LGR Transition Costs	4	
		29
Savings Identified 23/24		
Additional Funding from MTFP's	(9)	
Council Tax Increase 2% + 1% ASC	(2)	
		(11)
Current Budget Gap 23/24		19

3.25 The first step is to estimate the recurring pressures for 2022/23. These are difficult to estimate as they are current sovereign authority

variances that will recur and may currently be offset one-off measures, other than the 23/24 variances.

3.26 The main variances included relate to emerging pressures in both adults and children's social care as well as the pay award for 2022/23. As monitoring continues in the sovereign Councils it is possible that further variances could be identified.

3.27 The next step is to try and identify forecast pressures for 23/24:

- Budget changes included in sovereign MTFP of £8m are as a result of pressures and savings previously included in the MTFP. The largest elements of this is the County's inflation uplift of circa £7m;
- Additional economic pressures £12m are as a result of updating inflation assumptions using the CPI and RPI data published in September. The pay award assumption is now 5% pay award compared to the 2-3% previously assumed by the sovereign authorities.
- The Council has ambitions to start its transformation as soon as possible by investing in its developing corporate priorities. It recognises the need to produce strong business cases to support transformation projects and has included a net £5m in the budget to start this process;
- An additional £4m has been included to cover unavoidable incremental transition costs from LGR post vesting day, these will mainly be ICT and staffing.

3.28 Additional funding of (£11m) is as a result of replacing the existing funding assumptions for 2023/24 with the following assumptions.

- Council Tax based on 2% Council Tax referendum threshold and 1% Adult Social Care precept uplift;
- Business Rates uplift on section 31 grants based on a CPI uplift of 10% ;
- Grant uplift of 2% on RSG, New Homes Bonus continuing whilst the Local Tier Services Grant, 22/23 Service Grant and Social Care grants all continue at 22/23 levels with no uplift.

3.29 It is important to recognise that the current funding gap of £19m represents a snap shot at a point in time. The point in time is extremely volatile and uncertain and this does not include a number of issues that could help close the gap.

3.30 It is inevitable that many if not all of the assumptions will change as we move towards the setting of the 23/24 budget in February. The major variables are set out in the paragraphs below.

Funding Gap – future influences and risks

3.31 Some of the major factors include the continued review and refinement of existing pressures and savings from within the current sovereign Authority budgets, the development of any new priorities,

pressures, and savings as well as the financial impact of LGR Transitional arrangements.

- 3.32 It had been hoped that Chancellors Autumn Statement on 31 October might provide some high level intelligence however this has now been postponed until after the date of this meeting.
- 3.33 Therefore the assumptions made in relation funding from Government Grants, Business Rates and Council Tax will most likely be confirmed in the provisional local government finance settlement in mid to late December.
- 3.34 To ensure the assumptions remain robust, they will continue to be monitored and where necessary updated as Government announcements are made, or as other new information becomes available.
- 3.35 In order to close the gap the Council are likely to need to consider increases in Council Tax higher than 2% if allowed by Government and significant increases in fees and charges to cover costs.

Next Steps in the Budget Setting Process

- 3.36 As part of the budget setting process it is necessary to make assumptions about these factors, taking account of risk levels and uncertainty, at a point in time. To ensure the robustness of the budget, it is necessary to develop a range of assumptions in relation to the most significant factors impacting on the budget and this approach will continue until a final position can be confirmed.
- 3.37 There are a range of influences which determine which assumptions will form part of Westmorland and Furness Council's final budget for 2023/24. This includes both external and internal influences.
- 3.38 Whilst External Influences are largely outside the control of Westmorland and Furness Council, including government announcements regarding local government funding, economic forecast, and the cost of living, they are still an essential and important part of the budget and will continue to be considered as and when new information becomes available
- 3.39 The Internal Influences are a key part of informing the next steps in Westmorland and Furness Council's Budget Setting Process, such as the development of pressures and savings, the financial impact of any changes in service demand and LGR Transitional arrangements, as well as finalising Westmorland and Furness Council's approach for Council Tax levels, harmonisation, and discretionary discounts/premiums and the approach to be taken for fees and charges harmonisation and charging levels.

Detailed Budget Strategy Assumptions – Funding 2023/24 onwards

3.40 In order to deliver a balanced budget, the approach to budget setting will consider the following –

- The Council priorities – what it wants to do and the results it wants to achieve
- The levels of service delivery that will deliver value for money
- The level of funding anticipated from Government
- The level of funding anticipated from Council Tax and Business Rates
- Income that can be generated from fees and charges
- The level of balances required for prudence and to manage risk
- Stakeholder consultation

3.41 As part of the Budget setting process we must make a number of assumptions regarding funding and expenditure – for example anticipated funding from government grants, inflation figures, pay awards etc.

3.42 Some of these could be confirmed as part of the provisional local government finance settlement (not anticipated until Dec 2022) however others such as growth need to continue to be assumed.

3.43 As part of this work the Finance and Commercial Board have worked with technical experts to provide a range of risk-based assumptions and options to assist with financial planning.

3.44 Council Tax

Council Tax is the most stable, sustainable, and significant source of income for Westmorland and Furness Council. It is driven by the Tax-base (number of Band D equivalent properties) and the level of Band D charge set by the Council.

Across Westmorland and Furness, different levels of Council Tax have been previously raised. Whilst the Council Tax level set by Cumbria County Council is the same for all parts of the County, the rates set by districts and boroughs are different.

In order to set a single rate of Council Tax for Westmorland and Furness, there is a requirement to harmonise Council Tax. This is a process whereby the rates are adjusted over an agreed period to arrive at a single consistent rate.

The Governments referendum principles and ability to apply an uplift to the Adult Social Care precept is not expected to be announced until the Autumn Spending Review earliest or more likely with the provisional settlement.

The current assumption is for a 2% increase in Council Tax and 1% Adult Social Care precept. It is, unlike in previous years, extremely

difficult to predict what the principles might be. CPI (10%) is much higher than the previous referendum principles and in reality they could be anything from a freeze to CPI.

3.45 Council Tax Base

The tax base for 2022/23 has been calculated by the existing billing authorities and these have then been aggregated to provide a single tax base for Westmorland and Furness Council.

To which an estimated growth for 2023/24 onwards needs to be applied.

A range of assumptions are being considered for the growth of the aggregated tax base. In addition to those below the Government is considering introducing new flexibilities for second homes, which the Council will need to consider.

Assumption Options	Optimistic	Indicative	Pessimistic
Growth in tax base	25% above last 3-year average	last 3-year average	25% below last 3-year average
Council Tax Support (Pensioner)	100% of average decline since 2015/16	80% of average decline since 2015/16	60% of average decline since 2015/16
Council Tax Support (Working Age)	Reduced to pre COVID level then minus 1% per annum	Reduced to pre COVID level then no change per annum	No change

The final tax base will not be determined until 31 January 2023.

3.46 Business Rates

The Government has set a funding "baseline" for each sovereign authority and under the current Business Rates Retention system, Councils retain a proportion of Business Rates that exceed the baseline.

Increases in Business Rates are determined by the multiplier which is determined by Central Government. Where Government offer support on Business rates e.g. High Street support, Councils receive compensation for lost income in the form of a S31 grant and an estimate on any growth in this compensation is also required.

As with Council Tax, given CPI (10%) is much higher than in previous years the range in the assumptions for multiplier and the growth cap

are significantly higher. At this stage the multiplier increase is projected at 2% as in previous years. Given the growth cap is a compensator it is estimated at CPI.

3.47 Business Rates Pool

Under the business rates retention scheme local authorities are able to come together, on a voluntary basis, to pool their business rates, giving them scope to generate additional growth through collaborative effort and to smooth the impact of volatility in rates income across a wider economic area.

There is currently a Cumbria Pool in operation for 2022/23 that all of the 7 sovereign authorities form part of.

Early indications are that it will be beneficial for a new Cumbria Pool to be formed from 2023/24. Modelling is currently being undertaken to review the potential financial implications and the agreements that would need to be put in place for any such pool.

A final decision on the pool and which unitary will be the lead authority will need to be made following the provisional local government finance settlement in December.

3.48 Government Grants

The 3rd main source of funding for Westmorland and Furness is Government Grants.

Revenue Support Grant – is received by local authorities and can be used to finance revenue expenditure on any service.

New Homes Bonus – received to incentivise house building through encouraging local authorities grant planning permission and in return receive additional revenue as a result of the building of new houses.

Lower Tier Service Grant – was introduced as an un-ringfenced grant 2021-22 and this has remained in place for 2022-23. This grant is assumed to continue.

22/23 Service Grant- was introduced as a one off grant in 2022/23 to provide funding to local government in recognition of the vital services it supports. This grant is assumed to continue.

Social Care Support Grant(s) are provided to upper tier authorities for social care expenditure, this is an 'un-ringfenced grant' and it is assumed to continue at 2022-23 levels

A range of assumptions are being considered in relation to these grants

Assumption Options	Optimistic	Indicative	Pessimistic
Revenue Support Grant	+5%	+2%	0%
New Homes Bonus (NHB)	No NHB for 2023/24 and beyond but all funding returned per Settlement Funding Agreement	NHB received for 2023/24 only, no bonus beyond 2023/24 but all funding returned per Settlement Funding Agreement	No NHB and no returned funding
Lower tier service grant	+5%	No change	-100%
Services grant	+5%	No change	-25%
Social Care support grant	+5%	No change	No change

3.49 Fees and Charges

Income from fees and charges represents an important source of funds to the Council and enables a range of services to be provided within the area and beyond. The level of fees and charges need to be considered in the light of significant inflation on the cost of those services provided.

Some of these fees and charges will cover services that were previously delivered by more than one Council but will now just be delivered by Westmorland and Furness Council. It is not necessary to harmonise all fees and charges, but some do require harmonisation, and these are being prioritised and will be harmonised in April 2023.

This work is complex and is being progressed. Shadow Authority Cabinet have agreed the principles to enable 2023/24 fees and charges to be provided for approval as part of the final budget proposals.

Inflation Assumptions 2023/24

3.50 Contract Inflation

A number of significant sovereign council contracts have annual inflationary increases within their terms and conditions.

In the absence of the Office of National Statistics September inflation figures due on 19th October 2022 and the publication of the Office for Budget Responsibility Fiscal and Economic Outlook due on 31st October 2022. An estimate of the cost of the inflationary increases

above that already included in the MTFP has been calculated for 2023/24.

3.51 Pay Inflation

The pay award for the current financial year 2022/23 is still to be agreed. The existing sovereign authorities have estimated a range of expected uplifts of between 2% and 5%. If the final pay award is more than the existing 2022/23 sovereign authorities budgets, this will need to be factored in to budget pressures as part of setting the 2023/24 budget.

There is no indication yet of the expected pay award for 2023/24. An estimate of 5% has been included within the 2023/24 baseline an increase of 2% to that already increase in the MTFP.

3.52 Energy Inflation

Over the last six months, however, mainly because of the conflict in Ukraine, energy prices have been extremely volatile and have increased significantly. This has led to significant budget pressures on 2022/23 budgets.

The ongoing impact of energy inflation is difficult to predict in the current economic environment.

Capital Programme

3.53 Work is currently being undertaken to bring together the existing five-year programmes from each of the district and borough councils and disaggregating the County's programme. The outcome of this initial work has been reported to Members Implementation Board on 23rd September. Part of this process will be to identify future disposals and the level of capital receipts available. The options around flexible use of capital receipts to support transformation will be explored in accordance with the guidance set out by DLUHC and issued in August 2022.

3.54 Work will start to review all current schemes in line with the developing corporate priorities and identify any potential new schemes for Westmorland and Furness Council. These will then need to be prioritised and assessed against the level of funding available dependent upon the economic situation. It is important that during this period of substantial change schemes are assessed against the priorities given the limited availability of funding.

3.55 The capital programme must be considered alongside the revenue budget; they both support the delivery of the Council's objectives and the consequences of borrowing for capital expenditure are a factor in the revenue budget.

Conclusion and Next Steps

- 3.56 As set above, there are a number of areas where significant information is not yet finalised, and work will need to continue on modelling and refining the numbers.
- 3.57 Inflation, rising energy costs, potential pay awards, increasing demand for services and Treasury turmoil are leading to significant pressures in local authorities' budgets.
- 3.58 The economic environment has changed rapidly since the Governments mini budget in September and now further uncertainty surrounds the latest changes in Government and any announcements likely to come from the fiscal plan due on 31st October 2022.
- 3.59 Financial monitoring of the Q1 and Q2 positions for this year will be reviewed to determine the impact of business-as-usual pressures and demands so that these can inform the 2023/24 budget requirements.
- 3.60 Work is underway to determine operational models and structures required for Westmorland and Furness Council. This will identify the additional financial pressures required as services transition across to the new authority.
- 3.61 The initial work indicates that there will be transitional and permanent impacts these are likely to fall into the following categories –
- ICT - Disaggregation costs of countywide systems e.g. Highways, Social Care and Education Management Systems. Aggregation savings e.g. Payroll offset by the cost potential costs associated with retaining legacy systems.
 - Staff - Duplication of Countywide statutory posts, removal of other duplicate roles, efficiency of back office and enabling services.
 - Contracts - Disaggregation of existing county contracts and consolidation of/with districts.
 - Property - Consolidation of assets.
 - Transformation – the cost of supporting the transformational change.
- 3.62 We will continue to monitor announcements from Government to ensure that any financial implications that would impact local government are built into our financial planning. The provisional local government finance settlement is not expected until December 2022, where confirmations of any changes to funding would normally be made.
- 3.63 The formal budget setting process will involve members on the Shadow Authority Cabinet and the Shadow Authority Scrutiny

Committee considering the budget proposals prior to them being considered by the Shadow Council in February 2023.

4.0 Consultation

4.1 Appropriate consultation will be undertaken with the public prior to Shadow Authority Cabinet recommending their Final Budget Proposals to Full Council.

5.0 Alternative Options

The report sets out:

5.1 The progress to date and the approach to produce the 2023/24 Budget and MTFP and the strategy for balancing the budget gap.

6.0 Implications

Financial, Resources and Procurement

6.1 The financial implications are set out in the body of the report.

Human Resources

6.2 There are no direct implications associated with this report.

Legal

6.3 There is a statutory requirement to set a balanced budget.

Health and Sustainability Impact Assessment

Have you completed a Health and Sustainability Impact Assessment? No

6.5 If you have not completed an Impact Assessment, please explain your reasons:

6.6 There are no direct implications arising from this report.

Equality and Diversity

6.7 Have you completed an Equality Impact Analysis? No

6.8 If you have not completed an Impact Analysis, please explain your reasons:

7.0 Contribution to Westmorland and Furness Council Plan Priorities

The purpose of this report is an update on the strategic financial planning process that will allow the Westmorland and Furness Council Plan Priorities to be delivered and a balanced budget for 2023/24 to be achieved

Risk Management	Consequence	Controls required
Do not agree an approach and mechanism to establish a financially sustainable Unitary Council for Westmorland and Furness	Council priorities will not be delivered A balanced budget and MTFP will not be agreed	Identification of decisions required and timing of decision Implementation of decisions incorporated into Budget Preparation Process

Contact Officers

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Background Documents Available

Name of Background document	Where it is available
Strategic Financial Planning	Westmorland and Furness 22 July Shadow Authority Cabinet Agenda Item 19 Agenda Report Pack here