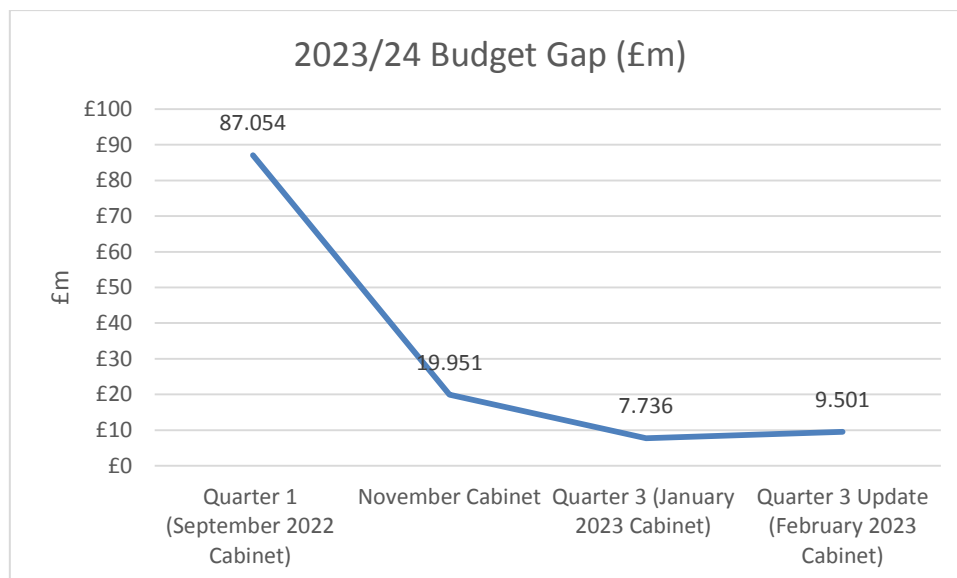


# The County Council's Revenue Budget and Council Tax for 2023/24

## 1. Introduction

Councils across the country continue to face ongoing pressures, driven by increasing demand and inflation. When compounded with the current workforce challenges, local government as a whole must make difficult decisions and look to be as creative and innovative as possible. At the County Council we have responded by focussing on productivity and efficiency in order to deliver our priority services. We have a track record of success with such programmes and sound financial stewardship means we are able to take a considered and measured approach.

The current financial year has been marked by volatility and uncertainty in terms of financial forecasting and we have made good progress in planning for and gripping these challenges as demonstrated in the graph below.



In particular, the Local Government Provisional Settlement announced on 19 December 2022, gave additional flexibility with a permitted increase in council tax of 4.99% for both 2023/24 and 2024/25 and additional grant funding for social care. In January 2023, Cabinet indicated their intention to recommend to Full Council that the proposed council tax increase be restricted to 3.99% at the Cabinet meeting in February.

The council continues to retain relatively healthy reserves with the current uncommitted transitional reserve, being sufficient to meet the forecast funding gap for the next 4 years. However, the intention remains to identify further savings and/or deliver agreed savings earlier than currently planned to reduce the forecast funding gap enabling further investment to be made into priority services.

## 2. The Revenue Budget 2023/24 to 2026/27

A report was presented to Cabinet on 2 February 2023 including the medium term financial strategy. This recommended an increase in council tax of 3.99% and forecast a financial gap of £9.501m.

The position has now been updated to reflect additional information received from District Councils in relation to the tax base position. The final information relating to the collection fund will be included in a budget adjustment to Full Council, as that was not received in time for the publication of this report. The position presented to Cabinet and subsequent changes are set out in Table 1.

***Table 1 – Medium Term Financial Strategy***

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
<b>Spending Gap as reported February Cabinet</b>	<b>9.501</b>	<b>-7.963</b>	<b>10.979</b>	<b>23.286</b>
Funding – Tax Base	-0.339	-0.362	-0.378	-0.396
<b>Forecast Budget Gap – Quarter 3 (updated)</b>	<b>9.162</b>	<b>-8.325</b>	<b>10.601</b>	<b>22.890</b>

## 2.1 Revenue Budgets for Services in 2023/24

The budget outlined below results in a net revenue budget of £1,035.977m. The budget by service is summarised below:

**Table 2**

Revenue Budget 2023/24	Net Budget (£m)
Adult Services	444.813
Safeguarding and Quality Improvement	10.220
Public Health	-3.016
Children's Social Care	193.647
Education, Culture and Skills	45.386
Education and Children's Services	10.774
Policy Commissioning and Children's Health	0.271
Highways and Transport	162.016
Growth and Regeneration	3.118
Environment and Planning	3.194
Resources	7.917
Finance Services	19.848
Strategy and Performance	40.262
Law and Governance	19.622
Digital Service	35.776
People Services	5.835
Organisation Development and Change	2.179
Chief Executive Services	2.874
<b>Sub-Total</b>	<b>1,004.736</b>
Financing Charges	40.403
Use of one-off resources (funding from Transitional Reserve)	-9.162
<b>Revenue Budget 2023/24 (Budget Requirement)</b>	<b>1,035.977</b>

### 3. Council Tax 2023/24

Full Council is advised that the Band D council tax for 2023/24 be increased by 3.99%. This includes the additional 2% Adult Social Care Precept permitted for 2023/24. The impact of these increases is:

**Table 3**

	<b>Band D Council Tax</b>	<b>Council Tax income</b>
General Council Tax increase at 1.99%	£30.13	£11.565m
Adult Social Care Precept increase at 2%	£30.29	£11.626m

The overall position is summarised as follows:

**Table 4**

	<b>£m</b>
<b>Budget Requirement</b>	<b>1,035.977</b>
Less Revenue Support Grant	38.206
Less Business Rates	232.789
Less New Homes Bonus	1.482
Less Improved Better Care Fund	47.145
Less Social Care Grant	94.579
Less Collection Fund	5.000
Less Capital Receipts	5.000
Less Services Grant	7.360
<b>Equals council tax cash</b>	<b>604.416</b>
Divided by tax base (estimate)	383,826.57
Gives LCC Band D council tax for 2023/24	£1,574.71
LCC Band D council tax 2022/23	£1,514.29
<b>Percentage increase</b>	<b>3.99%</b>

### **3.1 Council Tax in 2023/24**

Council tax increases have been applied to the medium term financial strategy period as follows:

**Table 5**

	Council tax increase (no referendum required)	Adult social care precept	Total council tax increase
2023/24	1.99%	2.00%	3.99%
2024/25	2.99%	2.00%	4.99%
2025/26	1.99%	1.00%	2.99%
2026/27	1.99%	1.00%	2.99%

Any decisions not to increase council tax in line with the assumptions above would increase the financial gap; every 1% in council tax yields circa £6m.

In the medium term financial strategy, based on historical trends, a growth in tax base of 1.7% was included in each of the next 4 financial years. Tax base information has been received from District Councils with the actual tax base position being 1.76%. This yields additional income of £0.339m in 2023/24.

### **3.2 Business Rates in 2023/24**

Business rates income is a significant source of funding for local authorities and our strategy assumes annual growth of 0.5% of the tax base in addition to the Consumer Price Index increase announced in the Provisional Settlement. We also receive a top up grant from Government as business rates collected are less than the assessed need in Lancashire.

The proposed national review of business rates has been delayed and is not expected to be introduced until at least 2025/26. Lancashire County Council is part of the Lancashire Business Rates Pool, with additional income of £0.600m included within the 2023/24 budget.

### **3.3 Capital receipts**

Traditionally, the use of capital receipts (income derived from the sale of long-term assets) has been restricted to funding capital expenditure or the repayment of debt. However, from 1<sup>st</sup> April 2016 the Government introduced the flexibility for capital receipts to be used to fund revenue expenditure which meets certain criteria, primarily to generate ongoing revenue savings or improvements in the quality of service

provision. This flexibility continues in 2023/24 and 2024/25 and the medium term financial strategy includes £5m of capital receipts in 2023/24.

The capital receipts in 2023/24 will be applied to the following areas:

**Table 6**

<b>Service Area</b>	<b>Value (£m)</b>
Human Resources	0.380
Childrens Social Care	1.154
Organisational Development	0.653
Adult Social Care	1.310
Legal and Democratic	0.122
Estates	0.200
Facilities Management	0.316
Asset Management	0.240
Exchequer Services	0.332
Digital Services	0.173
Procurement	0.120
<b>Grand Total</b>	<b>5.000</b>

The table above does not cover all the costs of identified transformation activity but makes a contribution to those costs.

These receipts would normally be applied to the capital programme and therefore the impact is to effectively increase the level of borrowing required to support the capital programme. The treasury management strategy and revenue budget reflects the level of additional borrowing required to deliver the capital programme.

#### **4. Fees and Charges**

The updated schedule uses the Consumer Price Index as at September 2022 (10.1%) to increase fees and charges, being the value applied by Government for pensions and benefit payments. The Consumer Price Index in September will be the default inflationary factor when setting fees and charges increases in future years.

There are some minor exceptions within the schedule where charges are set nationally, or other market factors have been considered.

Full Council is also asked to approve and note the additional points below:

- An exemption will be included for library members who are refugees, asylum seekers or any individuals who arrived in Lancashire through a coordinated resettlement scheme due to forced migration from paying reservation charges for borrowing library materials.

- A full review of the admissions policy for museums will be undertaken in 2023 and a new policy presented for consideration to the Cabinet Working Group on Museums.

## 5. Savings

The 2023/24 budget contains a proposed programme of savings totalling c£75m. This includes the 2023/24 elements of the £118m of savings agreed at Cabinet on 3 November 2022.

The savings agreed by Cabinet can be found on the link below (Item 5):

[Our Council - Agenda for Cabinet on Thursday, 3rd November, 2022, 2.00 pm](#)

The budget for 2023/24 and forecast over a further 3 years in the medium term financial strategy assume all savings are delivered within their agreed timeframes. Savings delivery is closely monitored across Directorates as part of the budget monitoring process.

### 5.1 Strategic Targets

The Council has set a number of strategic targets that aim to deliver savings of £32m over the four-year period with £9m in 2023/24. To deliver these a number of areas are being reviewed. Table 7 shows the agreed values and profile of the savings agreed.

**Table 7**

	2023/24	2024/25	2025/26	2026/27
	£m	£m	£m	£m
Contracts	-2.3	-5.6	-7.1	-7.7
Property	0.0	-0.2	-0.4	-0.6
Workforce	-4.7	-7.8	-8.7	-9.6
Digital and Technology and Business Processes	-2.0	-7.3	-14.2	-14.5
<b>Total</b>	<b>-9.0</b>	<b>-20.7</b>	<b>-30.4</b>	<b>-32.4</b>

**Contracts** – The Council has commissioned a review of Contract Management within the organisation and looking to save a minimum of 2% of the spend in this area through more effective management of existing contracts and more effective methods of recommissioning existing contracts and/or expenditure.

**Property** - The property workstream is targeting a reduction in the size and cost of our property holdings through the strategic property review and will also help to deliver a

level of one-off capital receipts which will be used to support the revenue budget over the next financial year as outlined in the report. The property review is being delivered in line with the principles of the approved Property asset management Strategy which was approved in February 2020.

The strategy contains objectives to review the property portfolio to ensure that it is appropriate for service delivery to ensure that the Council maximises use of its properties to maintain value for money. The ongoing review is taking full account of opportunities arising from new ways of working and the use of technology, which is reducing the demand for property. The review is also taking property condition, and decarbonisation ambitions into account as well as ensuring that service needs are properly understood and provided for as part of the process to ensure quality services to residents.

**Workforce** - The workforce saving is based on reductions in agency staff expenditure, improved sickness absence levels, robust vacancy management and a review of management spans and layers to reflect best practice seen in other large high performing Councils/organisations. The savings will be delivered alongside the development and implementation of the 'People Strategy' which will help mitigate recruitment and retention issues and develop an organisational development strategy for a modern ambitious forward-thinking council.

**Digital and Technology and Business Processes** – The Council will be reviewing its business processes to ensure they are streamlined and fit for purpose for a modern council, making changes that reduce cost and/or improve the customer experience. A full review of the existing and future needs of the council's ICT estate and digital infrastructure will be undertaken including a rationalisation of the existing platforms and ensuring all replacements are adopted in an optimal manner.



## 6. Reserves

The latest reserves position is shown in Table 8.

**Table 8**

Reserve Name	Opening balance 2022/23	2022/23 Expenditure	2022/23 Closing Balance	2023/24 Forecast Exp	2024/25 Forecast Exp	2025/26 Forecast Exp	Forecast closing balance 31 March 2026
	£m	£m	£m	£m	£m	£m	£m
County Fund	-23.437	0.000	-23.437	0.000	0.000	0.000	-23.437
<b>SUB TOTAL - COUNTY FUND</b>	<b>-23.437</b>	<b>0.000</b>	<b>-23.437</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>	<b>-23.437</b>
Strategic Investment Reserve	-4.192	0.244	-3.948	0.473	0.047	0.000	-3.428
COVID-19 Reserve	-11.048	5.145	-5.903	2.185	0.626	0.913	-2.179
Downsizing Reserve	-5.454	1.410	-4.044	2.022	2.022	0.000	0.000
Risk Management Reserve	-4.276	1.128	-3.148	-2.454	0.145	0.000	-5.457
Transitional Reserve	-215.777	27.244	-188.533	7.249	3.333	0.000	-177.951
Business Rates Volatility Reserve	-5.000	0.000	-5.000	0.000	0.000	0.000	-5.000
Service Reserves	-108.745	39.078	-69.667	25.682	16.292	8.428	-19.265
Treasury Management Valuation Reserve	-36.317	0.000	-36.317	0.000	0.000	0.000	-36.317
<b>SUB TOTAL - LCC RESERVES</b>	<b>-390.809</b>	<b>74.249</b>	<b>-316.560</b>	<b>35.157</b>	<b>22.465</b>	<b>9.341</b>	<b>-249.597</b>
Non-LCC Service Reserves	-17.065	0.314	-16.751	3.256	0.551	0.149	-12.795
<b>SUB TOTAL - NON LCC RESERVES</b>	<b>-17.065</b>	<b>0.314</b>	<b>-16.751</b>	<b>3.256</b>	<b>0.551</b>	<b>0.149</b>	<b>-12.795</b>
<b>GRAND TOTAL</b>	<b>-431.311</b>	<b>74.563</b>	<b>-356.748</b>	<b>38.413</b>	<b>23.016</b>	<b>9.490</b>	<b>-285.829</b>

The County Fund shown at the top of Table 8 is the balance set aside to cover the authority against a serious emergency situation (e.g. widespread flooding); a critical and unexpected loss of income to the authority and for general cash flow purposes. In considering these various factors the county council is forecast to maintain its County Fund balance at £23.437m, equating to circa 2.3% of net budget.

The value of the uncommitted transitional reserve is currently forecast to be £188.533m by the end of March 2023 but this will also be impacted directly by the value of any final over or underspend for the current financial year.

In 2023/24, an additional commitment has been included of c£2.2m to provide match funding for the UK Shared Prosperity Fund programme, which will link with businesses and the already established Boost programme.

The value of the uncommitted transitional reserve is currently forecast to be sufficient to meet the forecast funding gap for the lifetime of the medium term financial strategy, as shown in Table 9. However, the intention remains to identify further savings and/or deliver savings earlier than currently planned to reduce the requirement for reserves to meet forecast funding gaps and deliver a balanced and sustainable financial position. The value of the County Fund will be kept under review in future years including ongoing assessment of risks that it is established to cover. The relatively healthy uncommitted transitional reserve level also supports and mitigates emergency situations.

**Table 9**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Balance</b>	188.533	172.122	177.114	166.513
<b>Gap funding</b>	9.162	-8.325	10.601	22.890
<b>Commitments</b>	7.249	3.333	0.000	
<b>Closing balance</b>	<b>172.122</b>	<b>177.114</b>	<b>166.513</b>	<b>143.623</b>

## 7. The Robustness of the Budget and the Adequacy of Reserves

Section 25 of the Local Government Act 2003 requires that, in giving consideration to budget proposals, Members must have regard to the advice of the council's Chief Finance Officer, currently the Chief Executive and Director of Resources, on the robustness of estimates and the adequacy of the council's reserves.

### Robustness of the Estimates

This section is concerned with the scale of financial risks faced by the council as a result of the estimates and assumptions which underpin the budget. The basis of these estimates, as in previous years, relies on the forecast of activity and the impact of changes in policy previously agreed by the council, and any changes in national policies. These forecasts are kept under review as part of the budget monitoring process and actions identified to address financial risks and capitalise on financial opportunities arising from changes in the forecasts.

The table below demonstrates the scale of just a small variance in the assumptions made, showing the potential impact of both a positive and negative movement of 1% across the main areas within the medium term financial strategy:

	Potential Full - Year Impact of 1% movement (£m)
Funding - Council Tax	+/- 6.044
Pay	+/- 4.408
Price Inflation	+/- 8.161
Demand	+/- 5.546
Interest on borrowing	+/- 5.000

A number of specific potential risks and opportunities remain within the budget as follows:

- **Government Funding**

The Provisional Settlement was announced on 19 December 2022 and confirmed the funding streams that had previously been announced as part of the Autumn Statement.

Whilst the Provisional Settlement aims to provide some certainty to councils over the next 2 years, this mainly relates to the confirmation of flexibility in the level of council tax increase rather than confirmation of grant values in 2024/25. Estimates have been made of 2024/25 allocations using the same distribution formula being applied to funding streams in 2023/24. In addition, there remains uncertainty with regard to both the financial position and particularly funding levels from 2025/26 onwards. The medium term financial strategy makes the assumption that those grants provided in

2023/24 and 2024/25 will continue at existing levels over the lifetime of the strategy, whether that be as a specific grant or as part of a new funding formula.

The Provisional Settlement contained detailed figures for additional social care funding and provided confirmation of the ability to increase council tax by 4.99% in 2023/24 and 2024/25 including a ringfenced 2% adult social care precept. Some information was provided as to what it is expected that the additional funding would be spent on, with more detail being provided in due course. The review of the funding formula and business rates retention remains delayed. Indications are that the earliest opportunity for this to be introduced would be 2025/26.

Consequently, the biggest risk exposure, and potential opportunity, is with regard to the uncertainty on future funding levels from 2025/26.

- **Service Demand and Service Price Pressures**

Common to all upper tier councils we continue to experience pressures on adult and children's social care, particularly with regard to homecare services in adult social care and the cost of residential placements in children's social care. As a consequence, increased demand and inflationary price pressures have been factored into the medium term financial strategy. For adult social care services an additional £59m has been built in for increasing demand and a further £155m built in for expected price and inflationary fee pressures. Additional grant funding has been received as part of the Provisional Settlement to support both demand pressures and price increases including market sustainability and facilitating hospital discharge.

Demand pressures are identified based on current and historical trends and population projections where appropriate (particularly linked to the ageing population in respect of adult social care). Detailed work continues to be undertaken focused on a better understanding of the causes of increasing demand and when it is likely that demand will return to more usual levels as the current high levels of demand have been a key contributing factor to the funding gap.

Levels of inflation have been increasing during the year with the UK Consumer Price Index for November registered 10.7% year on year, although recent figures announced for December indicate that levels could have potentially reached their peak.

Provision made within the budget is limited to areas where the council has no choice but to pay increased prices, e.g., due to contractual terms. The inflation forecasts used in recent years are based on the future level of inflation implied by yields on interest linked gilts. Historically, this has tended to give a more accurate forecast than the methodology previously used. It is anticipated that the continued use of this methodology will reduce the risk of needing to make catch up additions to the budget for "missed" inflation or the need to absorb additional inflationary costs in year.

A particularly significant area is the care market, primarily residential, nursing and homecare, the funding of which is recognised as a significant issue regionally and nationally. A significant amount has been included within the estimates to fund price increases as well as the impact of the national living wage on care providers. As part

of the Provisional Settlement, additional funding was provided through various grants to support some of the additional costs across social care services. While further details are required on the conditions to this funding, it has been assumed within the estimates that those conditions can be satisfied.

- **Pay**

The majority of the pay bill is driven by the national pay agreement at £1,925 per full-time equivalent. At an average increase of 7% on the salary bill, this additional cost has been reflected in the budget.

Further to the announcement of the agreed pay award, assumptions relating to pay were increased, with budget provision made for an increase of 5% in 2023/24, 3% in 2024/25 and 2% in both 2025/26 and 2026/27. This change in assumption was made based on consideration of benchmarking information provided from other county councils, although the actual pay award will be in line with the outcome of the annual National Joint Council pay negotiations.

The county council remains an accredited member of the Living Wage Foundation.

- **Interest Rates**

As a result of the inflationary pressures there have been steady increases in the level of interest rates throughout 2022/23, with rates starting the financial year at 0.75% and the interest rate from December 2023 being 3.5%.

The increase particularly impacts on the borrowing costs in support of the capital programme. Increases in forecast costs have been built into the estimates based on forecasts provided by our treasury management adviser Arlingclose.

- **Savings Programme Delivery**

The scale of savings agreed to be delivered in previous budget rounds remains significant with c£30m budgeted to be delivered in 2022/23 and a further c£18m in later years. A further c£86m of additional savings proposals and £32m in strategic targets were agreed by Cabinet in November to form part of the 2023/24 budget proposals.

There are inherent risks in the delivery of any savings programme of this scale, particularly where they are directly linked to reducing the future demand for services. There are comprehensive arrangements in place to track delivery of financial savings and take corrective actions as required. We have a strong track record of delivery of our saving plans and in delivering balanced budgets over recent years, however this remains a significant risk on our risk register.

Any significant under-delivery or slippage to delivery timeframes will create an additional funding pressure and impact on the ongoing and longer-term financial health of the council. However, there is a strong management focus on delivery of agreed savings and accelerated delivery will help to improve confidence as well as create opportunities for alternative investments.

Overall, I am satisfied that the council's budgets are robust being underpinned by appropriate assumptions based on a variety of external and internal experts. We have also benchmarked data with other councils for added confidence. Of course, there are no absolutes and risk cannot be removed in its entirety. However, for all assumptions there are both upside and downside risks and the council has robust monitoring and management arrangements to ensure early identification of emerging risks and opportunities enabling appropriate action taken.

### **Adequacy of Reserves**

The council holds reserves for a number of reasons:

- to enable the council to deal with unexpected events such as flooding or the destruction of a major asset through fire,
- to enable the council to manage variations in the demand for or cost of services which cause in year budget pressures, and
- to fund specific projects or identified demands on the budget.

There is no 'right' answer to the question of the appropriate level of reserves for a local authority; this is a matter of judgement taking into account:

- the level of risk and opportunity evident within the budget as set out above,
- a judgement on the effectiveness of budgetary control within the organisation, and
- the degree to which funds have already been set aside for specific purposes which will reduce the need for general reserves.

In relation to the council's general reserve (County Fund Balance), the forecast level at 31 March 2023 is £23.437m. In addition, the council is forecast to hold £36.3m by the end of the financial year as a formal treasury management reserve to hedge against the uncertainty and volatility inherent in these markets. The reserve will enable the council to manage unpredicted interest rate changes and associated risks over the short-term without directly impacting the revenue account.

The value of the council's uncommitted transitional reserve, which is available to support the revenue budget, is currently forecast to be £188.533m at the end of 2022/23 and is sufficient to meet the forecast funding gap within the current medium term financial strategy covering 2023/24 to 2026/27.

The level of risk evident within the budget has been significant in recent years due to uncertainty in the macro economic outlook and funding levels. However as part of the Provisional Settlement the Government provided relative certainty as to the levels of funding for the next two years. The revenue budget for 2023/24 will need to be supported by reserves with an increasing gap forecast in subsequent years. The transitional reserve allows decisions to be made in a more measured and considered way while a sustainable budget is achieved.

As part of the medium term financial strategy report, scenario analyses of the forecast financial position and impact on reserves has been undertaken. Overall, I am satisfied

that the council has an appropriate level of reserves to cover the balanced risk assessment of our financial position from 2023/24 to 2026/27. However, it will be necessary for additional efficiencies, income generation and reduced costs to be achieved to bring the council to a financially sustainable position.