

## Resources Updates and Assumptions 2023/24

### General Fund Budget

#### Local Government Financial Settlement (LGFS)

- 1.1 The government announced a 3-year Spending Review in November 2021 for the financial years 2022/23 to 2024/25 which followed a one-year Spending Review for 2021/22. An autumn budget is anticipated in November 2022 when any significant changes to the Spending Review will be announced.
- 1.2 Despite a three-year spending review, the LGFS was only a one-year settlement which reduces the council's ability to provide robust medium term financial plans. The significant changes to the economy, inflation and cost of living, together with the war in Ukraine and widespread labour shortages has meant that any settlement for future years needs to be reassessed in this context to ensure local authorities remain sustainable and can deliver essential services.
- 1.3 The provisional LGFS for 2023/24 would normally be expected in December 2022, including confirmation of the council tax 'excessive increase' threshold above which a referendum would be required. It is unknown how the government will respond to increased financial pressures in local government and whether or not a change to the threshold would be considered, and therefore the following assumptions should continue to be treated with caution.

#### Government Grants and Precepts

##### *Revenue Support Grant (RSG)*

- 1.4 For the 2022/23 LGFS the government rolled forward the 2021/22 RSG allocation, inflated by CPI. It is assumed this grant will roll forward again and a 2% uplift has been included in the projection of £7.014m. This grant is now so small that even a high percentage uplift of RSG in line with current inflation would not contribute significantly to the council's resources.

##### *Additional Government Funding*

- 1.5 The budget projections include a midpoint assumption that the government will support councils with an increase in grant funding of up to £4.000m. The Local Government Association (LGA) recently indicated that the shortfall across Local Government in 2023/24 could be £2.4 billion, rising to £3.6 billion in 2024/25. This assumption, alongside the assumptions concerning Retained Business Rates (see later), takes the view that a step increase in support will be required to maintain financial sustainability across local government. While government are unlikely to fund the full deficit set out by the LGA, some support will almost certainly be needed to avoid widespread applications from local authorities for capitalisation directions or other emergency support measures.

##### *Adult Social Care precepts and Better Care Funding*

- 1.6 The core assumption is that the additional grants announced as part of the 2022/23 settlement relating to Social Care will roll forward and continue in 2023/24 at the

same level. In 2022/23 the council was able to levy a 1% Adult Social Care Precept to support the increased costs in this area and this flexibility was extended to allow a further 1% in each of 2023/24 and 2024/25.

- 1.7 Adult social care costs continue to increase significantly, and the council has worked with Health to secure increased contributions for cost sharing to help mitigate this. However, the increased demand and inflationary pressures create a significant additional burden.
- 1.8 The midpoint planning assumption is that the government will continue to provide additional ongoing support year on year but does not assume it is specifically for Social Care beyond the existing Adult Social Care precept flexibility.

<b>Table : Social Care Resources</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24 Planning Assumption</b>
ASC Precepts	3% £4.450m	1% £1.588m	1% £1.650m
Improved Better Care Fund (BCF)	£9.181m	£9.459m	£9.459m*
Adults & Children’s Social Care grant	£7.759m	£10.815m	£10.815m*

\* Any grant uplift is assumed to be captured by the £4.000m general additional grant assumption for 2023/24 detailed above and in the body of the report.

***New Homes Bonus (NHB)***

- 1.9 The government provided a one-year extension to the NHB scheme for 2022/23 and intended to explore how to incentivise housing growth effectively going forward. The planned consultation on the future of this incentive is assumed to be on hold and there is currently no indication of how this funding will be awarded in future. The budget assumption is that only legacy grant from previous allocations will be awarded meaning the council would receive £0.049m in 2023/24, a reduction of £0.773m.

***Other grant changes***

- 1.10 There is no update on grant allocations beyond 2022/23 which are normally announced alongside the provisional local government finance settlement.
- 1.11 The budget estimates assume a continuation of the 10% reductions in the centrally held unringfenced grants budget for 2023/24 in line with previous government funding reductions. This includes grants such as Housing Benefit Admin grant. However, this does not include the major ring-fenced grants of Public Health Grant or Dedicated Schools Grant which have seen improved allocations in recent years.

## **Business Rates**

### ***Business Rates estimate for 2023/24***

- 1.12 For 2023/24 the projections are based on 1.6% growth compared to 2022/23. This reflects the completion of a number of business space developments across the city net of further anticipated impacts on the retail sector. The range used in scenario planning within the body of the report is 1.1% growth to 1.7% growth.
- 1.13 Business rates are planned to increase by CPI based on September 2022 which is predicted to reach 10% and this is the revised planning assumption, potentially providing substantial additional resources. This would clearly be a high increase in Business Rates and in recent years the government has either frozen or capped the increase in Business Rates to protect businesses, with local government being compensated for any loss in resources through Section 31 grant.
- 1.14 Business rates are currently being revalued with a new 2023 rating list to replace the 2017 list from April 2023. Revaluation can cause fluctuations in the level of resources retained by the council. The government has stated it is committed to ensure, as far as practicable, that retained income is unaffected from this change and will consult on how this will be achieved ahead of the 2023/24 settlement.
- 1.15 Business Rates forecasts continue to be an area of financial risk which is heightened by the unknown impacts of global financial events and the legacy of the pandemic on businesses and therefore these estimates could change significantly.

## **Council Tax**

### ***Council Tax Reduction Scheme***

- 1.16 The council's local Council Tax Reduction Scheme (CTRS) was amended at full Council in February 2022, introducing a revised scheme based on earnings brackets for working age Universal Credit claimants. The pension age CTR Scheme remained unchanged.
- 1.17 The assumption in the projections is that the number of working age claimants will continue to reduce to pre-pandemic levels and this is reflected in the net council tax base growth assumption. Over the last few months the numbers of claimants has remained virtually unchanged but this could partly be a consequence of introducing the revised scheme. The claimant numbers will continue to be closely monitored and if overall numbers do not start to reduce, the projections may need to be revisited.

### **Council Tax Estimate 2023/24**

- 1.18 The council tax increase for 2023/24 is currently assumed at 1.99% for planning purposes, plus 1% for the Adult Social Care Precept previously announced by government and a further 1% across both elements as an assumed additional flexibility from government to help address inflationary pressures. The impact of the current financial climate on council tax income remains difficult to predict but reductions in CTR claimants and new housing developments have been assumed for 2023/24 resulting in a net increase of the tax base of 0.75%. The collection rate in 2022/23 was assumed to partially recover to pre-pandemic levels at 98.75%. Given the personal financial challenges likely to accompany the inflation crisis, the

collection rate is assumed to remain at this level rather than reverting to the full pre-pandemic level of 99%.

### **Corporate Inflation Provisions**

#### ***Pay***

- 1.19 At present there is no agreed pay offer for 2022/23 or 2023/24 but the current national inflation crisis is highly likely to cause an increase in pay offers above the government's base inflation target of 2%. The budget in 2022/23 originally included an allowance of 2% but for financial planning purposes a midpoint assumption of 4% has been included with a further 3.5% in 2023/24. These assumptions will be monitored closely as changes to pay represent a significant proportion of council expenditure and therefore financial risk. Any award above 2% in 2022/23 will be reflected in Targeted Budget Management reports during the financial year.

#### ***Pensions***

- 1.20 The last triennial review of the East Sussex Pension Scheme covered the period 2020/21 to 2022/23 and showed year-on-year reductions in the employer contribution rates and in 2022/23 the employer rate reduced to 19.8%. The financial health of the East Sussex Pension Fund has been affected by volatile world financial markets during the pandemic which could give rise to changes in the employer rates to ensure financial stability. However, it should be noted that the fund had very minimal exposure to Russian or Belarussian investments. In addition, the current inflation crisis has increased CPI substantially and therefore pension fund pensioners are likely to see significant increases for 2023/24 which may not be matched by investment performance. The next Triennial Review for the period 2023/24 to 2025/26 is due in December 2022 when the employer contribution rate can be updated; the fund projections are based on a 20-year horizon and therefore the current planning assumption is that the 2022/23 employer contribution rate will not change.

#### ***Prices***

- 1.21 The provision for general price inflation ranges between 0.75% and 2.00% as a base position depending on the type of expenditure. The impact of the current, very high inflation levels is separately identified within the updated service pressure assumptions rather than applying generic increases to all service areas.

#### ***Fees and Charges***

- 1.22 Fees and charges budgets for 2022/23 are assumed to increase by a standard inflation rate of 3.0%. Penalty Charge Notices (parking fines) are excluded from this increase as the levels of fines are set by government and cannot be changed independently. Temporary accommodation income is also excluded as this is determined by LHA rates.

### **Commitments and Corporate Priorities**

- 1.23 The budget projections for 2023/24 include year 2 of the Corporate Plan Investments set out in the Budget Report approved at Budget Council in February 2022. These included significant planned capital investment such as the Carbon Neutral 2030 and the Warmer Homes programmes where the financing costs of these investments are reflected in the projected financing costs budget. Other

substantial commitments include a further step increase in IT&D resources to support digital modernisation (as funding is switched from the Modernisation Fund) and an increase in the recurrent revenue for the Housing First programme.

- 1.24 There is no recurrent risk provision funding included within the financial projections. For planning purposes, any risk provision would need to be managed by redirecting reserves in the short term.

### **Census 2021**

- 1.25 The first data from the Census 2021 was released on 28 June and appears to give a significant reduction in the population of the City compared to the latest Mid-Year Estimate, showing a 5% reduction from 292,000 to 277,000 people. This is only 3,800 more people than the 2011 Census.
- 1.26 Officers will analyse the data in detail once received to understand all of the movements. Initially, it appears that there may be an issue with not accounting for students, many of whom may not have been in the city on census day due to extensive remote learning across higher education during the pandemic. This concern was raised widely at the time and ONS advised that this would be accounted for in the methodology.
- 1.27 Given the weight placed on Census data in determining funding allocations, these results need to be fully explored and formally challenged if the methodology appears to be flawed as the City Council could stand to lose significant resources.

### **Schools Funding**

#### **Schools Funding 2022/23 and beyond**

- 1.28 2022/23 is the final year of the three-year national funding package for schools (aged 5 to 16) from the 2019 spending review, which included a £7.1bn funding increase compared to 2019/20 levels, or a £2.6bn increase from 2021/22 (equivalent to 3.2%).
- 1.29 In the autumn 2021 spending review, the Government announced increases to schools' core funding for the three financial years covered by the Spending Review – 2022/23, 2023/24 and 2024/25. Significantly for 2022/23 additional funding of £1.2bn through the school supplementary grant was announced to provide support to the school sector with unforeseen costs, such as the Health and Social Care Levy and other anticipated cost increases. For the funding period to 2024/25, the 2021 spending review announcement represents an additional £4.7bn for the school budget, over and above the spending commitments made in 2019. This is broadly equivalent to a cash increase of over £1,500 per pupil by 2024/25 compared to 2019/20.
- 1.30 For mainstream schools in the city, the funding announcements equate to an overall cash increase of c. 4.8% cash in 2022/23 (equivalent to c. 5.5% per pupil) compared to 2021/22.
- 1.31 Schools are also in receipt of separate additional grant funding announced by government to support with the pandemic recovery. The most significant are the

school-led tutoring and Covid recovery grants and equate to c. £2m for schools in the city.

## **Housing Revenue Account (HRA)**

- 1.32 The HRA contains the income and expenditure relating to the council's social landlord duties covering approximately 11,700 rented properties and 2,900 leasehold properties. The Housing Revenue Account (HRA) is a ring-fenced account within the General Fund which covers the management and maintenance of council owned housing stock. This must be in balance meaning that the authority must show in its financial planning that HRA income meets expenditure and that the HRA is consequently viable.
- 1.33 Although the HRA is not subject to the same funding constraints as the rest of the General Fund it still follows the principles of value for money and equally seeks to drive out inefficiencies and achieve cost economies wherever possible. Benchmarking of both service quality and cost with comparator organisations is used extensively to identify opportunities for better efficiency and service delivery.
- 1.34 The HRA Budget aims to balance the priorities of both the council and council housing residents within the context of the council's Housing Strategy, Housing Revenue Account Asset Management Strategy and the Corporate Plan priorities which set out the overall direction for Housing in the city over a 4 year period.
- 1.35 The current economic environment is likely to have an ongoing effect on the resources available to the HRA during 2022/23, this includes a loss in rental income and the rising cost services driven by inflation. The Housing Income Management Team continues to work with residents to minimise the impact on households, whilst a project team has been formed to reduce the number void properties held during the financial year. The medium target is to move back to the pre-pandemic void levels. Indications are that these factors will result in short to medium term reductions in revenue but should not affect the long term plans and aspirations of the council in respect of the HRA and associated capital investment plans. The impact of inflation on resources during 2022/23 will continue to be managed within the resources available to the HRA with the on-going impact being included in the 2023/24 budget proposals, the medium term financial forecast and 30-year business plan.
- 1.36 A key area of focus for 2022/23 continues to be catching up on the delayed delivery of responsive repairs, empty property refurbishments, planned maintenance and major capital works to council homes due in part to the pandemic. The HRA has set up reserves to assist this process.
- 1.37 The budget for 2023/24 will allow for rent increases of up to CPI (at September 2022) plus 1% as allowed for in the Government guidance for five years from April 2020.
- 1.38 Rents are not calculated to take into account any service charges and only include all charges associated with the occupation of a dwelling, such as maintenance of the building and general housing management services. Service charges are therefore calculated to reflect additional services which may not be provided to every tenant or which may be connected with communal facilities rather than to a particular occupation of a house or flat. Different tenants may receive different

types of service reflecting their housing circumstances. All current service charges are reviewed annually to ensure full cost recovery and also to identify any service efficiencies which can be offset against inflationary increases, to keep increases to a minimum. The budget for 2023/24 will review any new areas for service charging as appropriate.

