

Financial Remit 2023-24

Councillor Stephanie Cryan - Cabinet member for Communities, Equalities and Finance

Duncan Whitfield - Strategic Director – Finance & Governance
January 2023

Context: 2021-22 Outturn Position

- Strong financial management resulting in a balanced outturn position after using COVID support grants, contingency and earmarked reserves
- Underlying budget pressures
 - social care demand pressures
 - shortage in supply of children's social workers pushing up agency costs
 - tight labour market creating staff shortages
 - overspends in spending on temporary accommodation
 - deficit in DSG due to ongoing high needs pressure
- Capital programme delivered but increasingly needs to be funded by borrowing

Context: 2022-23 Current Year (1)

Started year with a balanced budget

But during the year:

- Unprecedented levels of inflation
- Energy price rises
- Interest rate rises
- Higher than anticipated pay awards
- Increased and rising demand for social care
- Increased number of children assessed with DSG 'high needs' and increasing demand in services for young people over 16

Context: 2022-23 Current Year (2)

These macroeconomic events – the cost of living crisis- have created significant budget pressures

- High inflation has increased contractual costs of delivering the same services
- Price increases in food and energy have largest impact on the most vulnerable residents who will need additional council support
- Huge increase in energy prices have put a strain on council budgets
- Cost of social care services higher than expected
- DSG high needs deficit plan subject to inflationary price increases as well as demand pressures
- Interest rate rises increases the cost of council borrowing to fund the capital programme, which will create pressure on the revenue budget
- Capital programme costs subject to higher construction inflationary increases of 25%

Context: 2022-23 Current Year (3)

Other local Issues

- Capital programme commitments exhausting council's borrowing capacity– General Fund and HRA.
- HRA - facing significant additional costs resulting from the Building Safety Regulations
- Dedicated Schools Grant (DSG) is forecast to overspend by £3m (accumulated deficit would increase to £24.6m)
- More schools in financial difficulty as primary school rolls fall across London
- No central government funding to support the council's climate emergency targets

Looking Forward 2023-24

18 July 2022 Cabinet – Financial Remit 2023-24 and 2024-25

July report set out the initial broad assumptions for 2023-24 and 2024-25

- Highlighted emerging pressures and significant uncertainty
- Set out a range of possible outcomes, with the most likely gap in funding of £24m.

Based on

- No further funding for Covid
- Government funding increases of 3%
- Significant ring fencing of social care grants- with potential for growth in funding
- New homes bonus to decrease
- LG Finance reform – expected to be delayed again until 2024-25
- Additional pressures from inflation, pay and interest rate rises
- Council to raise council tax by 1.99% and social care precept by 1%
- Highlighted risk of Business Rate Revaluation in 1 April 2023 and risk to revenues
- Highlighted risk of local government funding increasingly being delivered through local sources (Council Tax/Business Rates) and how councils manage growth and volatility

18 October 2022 Cabinet – Financial Remit 2023-24 and 2024-25 update

- Updated the July position, to report on the impact of Kwarteng’s ‘mini budget’ (23 Sept 2022), consequent market turmoil, raising of interest rates and policy U turns. Hunt reversed most of the mini budget (14 Oct 2022)
- Significant financial instability- creates further volatility in business rate and council tax income.
- No further information on local government funding but noted IFS view that public sector spending would be cut to find £62bn in fiscal tightening
- Updated information on support for energy crisis and impact on council
- Highlighted increasing impact of cost of living crisis on the vulnerable and creation of Southwark Council Cost of Living Fund
- Revised assumptions in the medium term financial plan
- Updated the council’s position – forecasting a gap of £19.8m

6 December 2022 Cabinet- Draft Budget for 2023-24

- Autumn statement (17 November) set out government spending plans for 2023-24 to 2027-28. Hunt pledged to increase taxes and reduce spending to finance the 'black hole' in public finances
- Specific local government funding still unknown
- Key announcements:
 - Increased flexibility to raise council tax by 2.99% and social care precept by 2%
 - Implementation of social care reforms delayed until October 2025
 - Funding remains flat, but additional resources for pressures in social care. No compensation for inflationary increases in 2022-23 or 2023-24
 - Social housing rents capped at 7%, without any compensation for lost income to the HRA
 - Business rate revaluation in April 2023 to have transitional arrangements to reduce volatility
 - Medium term financial plan updated to reflect announcements
 - budget challenge process ongoing - identified saving options (£14.4m) that align with the councils priorities and commitments

Budget gap reduced from £19.4m to £6.3m

20 December 2022 –Provisional Local Government Finance Settlement (1)

- Policy announcement on the 12 December, ahead of the local government provisional settlement on the 20 December
- Headline increase of 9% increase in core funding - with extra funding directed towards social care
- Proposed allocations for 2023-24 , and some principles for 2024-25 . Essentially a one year settlement

Key points:-

- SFA increased, but other government grants - services grant, lower tier grant and new homes bonus substantially reduced
- Increase in 'ring-fenced' funding – for social care.
- Confirmed that reforms to be delayed until October 2025 and no information as to how these will be financed
- Extension of statutory override for DSG until 2025-26 – no solution to 'high needs' pressures

20 December 2022 –Provisional Local Government Finance Settlement (2)

Southwark funding assumptions from July to December 2022

Significant uncertainty for another year due to political and economic turmoil, U turns, delaying of planned reforms, high inflation rates, high energy costs, strikes...

But for Southwark,

- Many iterations of the medium term financial plan to accommodate unpredictable economy
- Many changes to individual grants - SFA increased, ringfenced grants increased, un-ringfenced grants substantially reduced
- But overall, predicted overall government funding in July of £246.8m....Provisional settlement allocation to Southwark was £247.2m. (within 0.4m)

Next Steps - Budget setting timetable

	Date
Cabinet 2023-24 budget report	17 Jan 2023
OSC – budget scrutiny session (All Day)	23 Jan 2023
OSC – budget scrutiny session (Evening)	24 Jan 2023
Cabinet - 2022-23 budget report for recommendation to council assembly	6 Feb 2023
Council Assembly budget setting meeting	22 Feb 2023
Council Tax Setting Committee	24 Feb 2023

Post 2023-24 ??

- Additional resources planned for social care reform has been used to address current demand pressures.
 - Will additional resources be found for reforms in 2025, at the expense of other local government funding?
 - Will it be enough to address longer term pressures facing social care?
 - Continuing trend to reduce general grants creating less funding flexibility for the council?
- Will local taxes (council tax and business rates) make up a higher proportion of local government funding?
 - Southwark – a 1% increase in CT will only bring in £1.3m
 - Southwark is heavily reliant on central government funding (57%)
- Business rate income is a huge risk as the governments assumes long term increases
 - But is this likely in an economic downturn? Is it overly optimistic?
 - Will there be more appeals against
 - What will happen to local revenues in Southwark post 2024?

Questions?