

ADDENDUM
(TO DRAFT BUDGET 2023-24 AND MEDIUM-TERM FINANCIAL PLAN)



EXECUTIVE
22nd December 2022

Report Title	Budget Update 2023-24 - following publication of the Provisional Local Government Financial Settlement
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1. Purpose of the Addendum

- 1.1 The purpose of this addendum to the main budget report is to update Members of the outcome of the provisional Local Government Finance Settlement, which was published on 19th December 2022, following a written statement from the Secretary of State for Levelling Up, Housing and Communities, Michael Gove. The Settlement sets out the funding for individual Councils following the Autumn Statement announced earlier this year on 17th November.
- 1.2 The provisional Local Government Finance Settlement details the funding allocations for one year only (2023-24) with principles laid out for 2024-25 rather than providing indicative amounts per authority. This means that for each Council uncertainty will remain regarding future years funding, as reviews are planned in 2024-25 for some of the current budget lines and it is expected that this will be followed by a more substantial review from 2025-26 to consider the overall funding allocations and the wider business rates mechanism.
- 1.3 This addendum sets out the funding and other budget changes for North Northamptonshire Council for 2023-24 following the publication of the provisional Local Government Finance Settlement and compares it to the assumptions within the recently published budget report which will be considered by Executive at its meeting on 22nd December. The impact of the Settlement for the Council in the years 2024-25 and 2025-26 is currently being worked through and will be set out within the February report to Executive and Council.

2. Summary

- 2.1 Overall Local Government was a major beneficiary of the Autumn Statement 2022, with larger increases in funding than any other part of the public sector. Much of the increase was directed towards social care, but as can be seen from the provisional Local Government Finance Settlement, even authorities without social care responsibilities have done better than had been expected.
- 2.2 The provisional Local Government Finance Settlement published on 19th December is the best in cash terms that local government has received for over a decade. Whilst this is helpful, the levels of inflation and demand growth do still mean that local authorities continue to have a financial gap to close.
- 2.3 Generally, authorities with higher levels of deprivation will receive larger increases in Core Spending Power. The Core Spending Power is a measure of the resources available to local authorities to fund service delivery. It sets out the money that has been made available to local authorities through the Local Government Finance Settlement.
- 2.4 In the written statement to Parliament when announcing the Settlement, Michael Gove said that authorities in the upper decile of the Index of Multiple Deprivation (IMD) will receive 17% more per dwelling than the least deprived. This is the result of distributing two-thirds of Core Spending Power using “needs”-based formulas, and continues the trend of recent settlements, where more-deprived authorities have received larger Core Spending Power increases. For North Northamptonshire Council its Core Spending Power rose from £1,784 per dwelling in 2022-23 to £1,939 per dwelling in 2023-24, an increase of around 8.7%. The national average for England increased by 9.1% from £2,162 in 2022-23 to £2,360 in 2023-24. The table below illustrates the average increase across the classes of local authorities.

Table 1 – Core Spending Power by authority class

	Gov't funding increase (£M)	Gov't funding increase (%)	Council tax increase (£M)	Council tax increase (%)	CSP increase (£M)	CSP increase (%)
Inner London boroughs	224.8	10.9%	77.7	6.2%	302.6	9.1%
Outer London boroughs	274.7	13.8%	162.8	6.0%	437.5	9.3%
Metropolitan districts	820.7	13.9%	325.6	6.1%	1,146.2	10.2%
Unitary authorities	738.6	13.4%	528.8	6.0%	1,267.4	8.8%
Shire counties	795.5	18.6%	633.8	6.2%	1,429.4	9.8%
Shire districts	52.8	6.3%	57.1	4.2%	109.9	5.0%
Greater London Authority	118.7	8.7%	74.9	6.2%	193.6	7.5%
Combined fire authorities	30.8	8.0%	30.1	4.1%	60.8	5.5%
Metropolitan fire authorities	20.0	8.0%	9.8	4.1%	29.8	6.1%
England	3,076.6	13.6%	1,900.5	6.0%	4,977.1	9.1%

- 2.5 The Settlement, however, does include some decisions which have not fully recognised the relative increases for more deprived areas (eg the limited equalisation of the Social Care Grant for the ability to raise resources through the Adult Social Care precept), but generally the funding shows greater acknowledgement of relative needs of Councils and the ability to raise funding through Council tax since 2020-21. Where relevant, inflationary increases have been recognised based on the September 2022 CPI figure of 10.1%.
- 2.6 The Autumn Statement, together with the Policy Statement issued last week provided Council's with the principles behind the Settlement and indications regarding the global quantum of resources available for a number of areas. However, some changes in the Settlement have not been as clearly signalled and the movement in the funding allocations has been more significant for these.
- 2.7 The Settlement also recognised the implications of a recently announced business rates revaluation which will come into effect on 1 April 2023, and the impact for North Northamptonshire will be a c19% uplift in the rateable value of businesses in the area. Whilst generally revaluations are broadly neutral in terms of the business rates income for Councils across the country, it does complicate the calculation of the business rates baseline and funding level. As a consequence of the revaluation, it has moved the Council from a "top up" to a "tariff" authority. As a tariff authority, any business rates growth that the Council generates in excess of the determined need, based on the Government's calculations, is not retained by the Council. This was further complicated by the allowance for inflation following the freezing of the multiplier cap. Overall, following a revised model supported by the details within the Settlement, there was an adverse impact of £0.640m on the business rates baseline figure compared to the budget assumptions.
- 2.8 There is still some uncertainty for 2024-25, as this is not a fixed two-year settlement. The future of New Homes Bonus (NHB) remains unknown and more importantly, the Council does not yet know the level of inflation next September (it is expected to be around 7.5%), and whether ministers will decide to freeze the business rates multiplier again, safeguarding businesses from increases and, in so doing, compensate Councils for the loss in income.
- 2.9 The Government has taken the opportunity to make a number of changes to existing grants, when originally a rollover of grants from 2022-23 was expected. Noticeably the Services grant has been reduced to reflect the reversal of the National Insurance increase for the Health and Social Care levy and to fund the increase in the family support grant. However, it is evident from the allocations within the Settlement that the overall quantum for this grant has been reduced for other factors, which are not yet fully explained.
- 2.10 In summary the key points from the Settlement announced on 19th December are:
- It is a one-year settlement for 2023-24, with some indications about funding for 2024-25 but no specific allocations.

- The Business Rates funding levels and compensation for the freezing of the business rates multiplier have been set. However, the business rate revaluation has provided further complication to this complex calculation.
- Revenue Support Grant (RSG) has been uplifted by CPI of 10.1%, but there are other items rolled into the grant settlement which means they are not as favourable as they may first appear (eg Family Annex Council Tax Discount Grant and LCTS Administration Subsidy grant).
- Social Care Grant is £3.852bn, and includes the £2.346bn in 2022-23, plus the c£1.3bn recycled from the ASC charging reforms. The grant for the Independent Living Fund has also been rolled into the grant allocation (£160m).
- The ASC Market Sustainability and Improvement Fund (£562m) includes the £162m that authorities received in 2022-23 to support care costs, together with the additional £400m that was announced in the Autumn Statement 2022 (originally announced as discharge and capacity funding).
- The £300m Discharge Fund has been shown separately within Core Spending Power and is to be distributed through the Better Care Fund.
- All social care grants are distributed using the Adults Relative Needs Formula. The level of the grant equalised to recognise the varying capacity of Councils to raise funding from increasing the precept percentage is £160m, which is less than originally anticipated. Half of the equalisation has been funded from elsewhere within the settlement.
- Services Grant is lower than expected. It was anticipated that £200m would be top sliced from this grant (for the National Insurance Contributions increase that was reversed), together with c£35m for the increase in the Family Support Grant. However, it is now clear that some of this grant has been used elsewhere in the Settlement. The same basis of distribution for this grant has been used as in the previous year.
- The 3% Core Spending Power Funding Guarantee will cost £136m in 2023-24. Almost all recipients of this funding are District councils and North Northamptonshire will not receive any grant allocation. This has been funded through New Homes Bonus legacy payments falling away and the repurposing of the Lower Tier Services Grant, which the Council had previously received.
- An additional year of New Homes Bonus (NHB) allocations worth £290m has been announced, however, no legacy payments will be attached to this. There is no indication about the future of NHB in 2024-25 and beyond.
- There is no change in the Rural Services Delivery Grant (RSDG) (£85m).
- Core Spending Power assumes that authorities apply the maximum increase in Band D Council Tax, and that taxbase rises in line with the four-year average for the authority.
- There are no indicative allocations for 2024-25, with some reviews pencilled in for grants such as NHB.

2.11 In this context, the 2023-24 settlement is a one-year holding position and represents a comparatively small net adverse movement in the Council's General Fund of £0.138m against the Council's draft budget proposals, mainly due to the impact of changes to the assumptions for the business rates baseline, when taking into account the revaluation and other adjustments

alongside the reduction in funding nationally for the Services Grant. It is proposed that this gap is closed using the Business Rates Smoothing Reserve, which was established to address risks around the annual business rates yield.

- 2.12 Section 3 sets out the further information on the settlement and the reasons for the movement.
- 2.13 The provisional Local Government Finance Settlement is now open for four-weeks consultation prior to the publication of the Final Local Government Finance Settlement around February 2023.
- 2.14 Considering the updated position set out in this paper, officers will continue to seek further efficiencies to offset the use of the business rates reserve and prior to the final budget being published in February 2023.

3. Details of the Local Government Finance Settlement for North Northamptonshire Council

General Fund

- 3.1 The revised funding compared to the budget assumptions is set out in the table below. The movements leave a minor net budget requirement (shortfall) of £138k. It is proposed that this is met through a transfer from the business rates smoothing reserve, as this earmarked reserve has been established to mitigate against fluctuations in business rates assumptions.

Table 2 - Revised Funding following the Local Government Finance Settlement (General Fund)

	2023/24 Budget £000	2023/24 Settlement £000	Change £000
Funding Streams:			
New Homes Bonus	(1,794)	(1,839)	(45)
Business Rates Funding Baseline	(98,956)	(98,316)	640
Business Rates Collection Fund	3,699	3,699	0
Council Tax	(189,419)	(189,419)	0
Council Tax Collection Fund	(1,971)	(1,971)	0
Revenue Support Grant	(5,405)	(5,740)	(335)
Social Care Grant	(11,427)	(11,427)	0
Social Care Funding – Other	(6,448)	(6,799)	(351)
Discharge Funding (Ring fenced) – renamed to Market Sustainability and Improvement Fund	(1,984)	(2,955)	(971)
Improved Better Care Fund (iBCF) – note 1	(13,010)	(13,138)	(128)

	2023/24 Budget £000	2023/24 Settlement £000	Change £000
Rural Services Delivery Grant	(35)	(35)	0
Services Grant	(2,962)	(2,206)	756
Lower Tier Services Grant	0	0	0
Transfer to / (from) Reserves	(6,211)	(6,211)	0
Total Funding	(335,923)	(336,357)	(434)
Use of Resources:			
Service Budgets	335,923	336,495	572
Total Use of Resources	335,923	336,495	572
Net Budget Requirement	0	138	138

Note 1 – Includes a new discharge fund of £300m (representing 50% of the total funding of which the remainder has been allocated to health). Distribution is based on BCF methodology and is shown as part of the Core Spending Power for Councils. The allocation to North Northamptonshire Council is £1.616m compared to a budget assumption of £1.488m.

- 3.2 The key elements in the 2023-24 provisional settlement are set out in the following paragraphs.
- 3.3 **New Homes Bonus (NHB) - NNC Allocation £1.839m.** The government has added a further year of funding (Year 13 - £290m nationally). This is a small improvement of £45k on the estimate within the budget.
- 3.4 **Business Rates Funding Baseline.** The Government recently announced a business rates revaluation which will come into effect on 1st April 2023. This has had a significant impact for businesses in North Northamptonshire with rateable values increasing by c£65m; a poundage of around £24m when allowing for reliefs and other adjustments. Revaluations are not intended to benefit or adversely impact Council finances, however, on this occasion it has pushed the Council into being a tariff authority. When taken together, the adjustments for the tariff alongside the inflationary factors and other changes to the baseline has resulted in a revised business rates baseline budget of £98.316m, which is £0.640m less than anticipated in the budget. The Council will be responding to the Government consultation on the Settlement to raise the issue of the revaluation impact on the business rates income for the Council.
- 3.5 **Council Tax.** The Government calculations assume that every authority will increase Band D council tax by the maximum amount allowable (core 2.99% (3% referendum limit) and 2% for ASC precept). The Government also assumes that the taxbase will increase in 2022-23 for each authority in line with their average taxbase increase between 2018-19 and 2022-23. North Northamptonshire Council is proposing to increase its Council Tax in line with the maximum sum allowable of 4.99% to help address price and demand pressures.

- 3.6 **Revenue Support Grant (RSG). NNC Allocation £5.740m.** An increase has been applied to the RSG to recognise inflation. Further to this the RSG has also increased to accommodate grants for the Family Annex Council Tax Discount Grant and LCTS Administration Subsidy grant which will no longer be paid to the services direct. In order to recognise the funding for these areas is now being met through RSG, the grant income budgets held within the services can be reversed, totalling £86k.
- 3.7 **Social Care Grant and Other Funding. NNC Allocation £18.226m (£11.427m + £6.799m).** As part of the Autumn Statement the Government indicated that the reforms of adult social care would be delayed and this would enable the repurposing of the funding previously set aside for this purpose. Within the Settlement the Government also highlighted that the funding for the Independent Living Fund (ILF) had now been rolled up into this grant, rather than be funded through a direct service grant. The grant has increased by £351k against assumptions, however, the Service Budget will need to change to recognise the removal of the separate ILF grant now that it is rolled up into the Social Care Grant – this totals £358k.
- 3.8 **Market Sustainability and Improvement Fund (previously indicated as Discharge Fund). NNC Allocation £2.955m.** In the Autumn Statement the Government announced a ring-fenced grant of £400m which was initially to support discharge and capacity and was indicated as such in the Council's original funding assumptions as part of the draft budget. Within the Settlement the grant is identified as the Market Sustainability and Improvement Fund and now includes £162m from the Government's previous funding for adult social care reform. The costs associated with market sustainability funded through this element of the grant and including the full year effect into 2023-24 had already been included within the budget assumptions and therefore the additional grant against budget, totalling £0.971m, can be released.
- 3.9 **Improved Better Care Fund (IBCF). NNC Allocation £13.138m.** This has been increased from the previous year to include a ringfenced grant of £300m to support discharges from hospital. The grant represents 50% of the overall allocation of funding in this area, with the remaining 50% allocated to Health. The grant has been allocated on the basis of the iBCF and is included within the Core Spending Power for the relevant Councils. The original estimate including the additional grant funding was £13.010m and, therefore, the Settlement represents an improvement of £128k. The additional income will be matched by an increase to the gross budget available to spend in this area.
- 3.10 **Rural Services Delivery Grant. NNC Allocation £35k.** No change to the funding assumption in the budget.
- 3.11 **Services Grant. NNC Allocation £2.206m.** As part of the Autumn Statement and subsequent Policy Paper, the Government indicated that the Services Grant of £822m nationally in 2022-23 would reduce for the reversal of the NI changes for the Health and Social Care Levy (£200m) and the amount needed for the increase in the family support grant (estimated as £35m). This resulted in an estimated allocation of £2.962m which was included within the Council's

budget. However, the national grant allocation fell further to £455m as part of the Settlement, resulting in a grant allocation of £2.206m, an adverse impact of £0.756m on the Council's available funding.

- 3.12 **Lower Tier Services Grant. NNC Allocation £nil** – There is no change from the budget assumption.
- 3.13 Public health grant is outside the Core Spending Power and is announced separately from the settlement itself, usually in the New Year. The Spending Review 2021 announced that public health grant would increase in line with inflation, however, this is to be confirmed.
- 3.14 Funding for the National Living Wage, and pay awards is included within the settlement package, and effectively funded through the various grant increases. There will be no further government funding for these pressures.

Council Tax Referendum Principles

- 3.15 An increasing share of the growth in the Core Spending Power will come from local taxpayers. The maximum increase in "core" Band D will increase by 1% to 2.99% in 2023-24, although a number of other authorities will be able to increase their Band D equivalent Council Tax by more than this. These are the council tax principles for 2023-24:
- Core principle of a maximum increase of 2.99% in Band D - This applies to unitary councils, county councils, London boroughs, GLA precept, and fire and rescue authorities.
 - Continuation of the adult social care precept, allowing an additional 2% of Band D in 2022-23.
 - Shire district councils will be able to increase Band D by the higher of 1.99% or £5.
 - Police and Crime Commissioners will be able to increase their precept by a maximum of £15 in 2023-24 and the maximum will revert to £10 in 2024-25. The maximum increase in precept was £15 in 2021-22, £10 in 2020-21, and preceded by £24 in 2019-20 and £12 in 2018-19.
 - Fire authorities will be able to increase their precept by 2.99% or £5.
- 3.16 Ministers have not set a maximum precept increase for any of the mayoral combined authorities and have also decided to defer setting any referendum principles for town and parish councils.

Changes to General Fund Services Budgets

- 3.17 The Settlement included a number of grants that were previously allocated direct to services now being included within the revenue support grant and the social care grant respectively. In order to recognise this change, the income budget that would have previously been held within the service lines will be reversed. There is also an increase to recognise the favourable change to the iBCF from the allocation of the new discharge fund. The total adjustment is £0.572m.

3.18 The table below sets out the changes:

Service Changes	2023/24 £000
<u>Increase in Gross Expenditure to match additional grant</u>	
iBCF – Discharge Fund	128
<u>Removal of grant budgets from services as items now funded through RSG and Social Care Grant</u>	
<u>RSG items</u>	
- Family Annex Council Tax Discount Grant – nil impact	0
- Local Council Tax Subsidy Grant	79
- Food Safety Enforcement Grant	7
<u>Social Care Grant</u>	
- Independent Living Fund	358
Total Service Changes	572

Dedicated Schools Grant (DSG)

3.19 The Dedicated Schools Grant (DSG) is a ringfenced grant that support schools, early years and other educational settings. Within the Council's budget report for Executive on 22nd December, the indicative DSG allocation of £347.97m was included based on the position as at 17th November 2022. However, the Final DSG Settlement which was published on 16th December indicated an increase in funding in the main blocks for North Northamptonshire of £21.87m from 2022-23, taking into account the latest pupil numbers and any cross-boundary movements as well as the increase in funding promised by the Government in the Autumn 2022 statement. The Indicative Early Years funding is based on the January 2022 census data and will be subject to change during 2023-24 to reflect January 2023 and January 2024 Early Years census. The final Early Years Block allocation will be based on January 2024 census. The additional allocation for High Needs of c£2.32m as promised by the Government in the Autumn 2022 statement is included in the High Needs Block DSG. The table below sets out the changes.

Table 3 – DSG Allocation by Block

DSG Blocks	2022-23 DSG Allocation	Provisional Settlement 2023-24	Final Settlement 2023-24	Difference 2023-24 from 2022-23	Difference Final from Provisional
	£m	£m	£m	£m	£m
Schools Block	254.88	266.08	270.28	15.40	4.20
Central School Services Block	3.57	3.27	3.29	-0.28	0.02

DSG Blocks	2022-23 DSG Allocation	Provisional Settlement 2023-24	Final Settlement 2023-24	Difference 2023-24 from 2022-23	Difference Final from Provisional
	£m	£m	£m	£m	£m
High Needs Block	52.37	55.15	57.85	5.48	2.70
Early Years Block	22.27	23.47	23.54	1.27	0.07
TOTAL	333.09	347.97	354.96	21.87	6.99

- 3.20 The increase in funding following the Final Settlement for 2023-24 is due to:
- A decrease of 143.50 Primary pupils and an increase of 522.50 Secondary pupils. This led to an increase in the Schools Block and Central School Services Block as the ongoing responsibilities are based on pupil numbers from the October 2022 census.
 - The allocation of Schools Growth Fund for 2023-24 of £1.645m, which increased the Schools Block from the Provisional NFF Settlement for 2023-24.
 - Increase of 72.82 pupils in Special Schools and Academies in the October 2022 census. This increase in pupil numbers together with the High Needs Additional Funding of £2.32m increased the High Needs Block Final Settlement for 2023-24.
 - Early Years Block Indicative Settlement based on January 2022 Early Years census increased as a result of increases in funding of:
 - £0.27 per hour in 3- and 4-year-old entitlement which includes £0.05 per hour for Teacher Pay and Pension Grant which was rolled into the 3- and 4-year-old funding
 - £0.13 per hour for 2-year-old entitlement
 - £0.02 per hour for Early Years Pupil Premium
 - £28 per annum per child for Disability Access Funding
 - £0.58 per hour for Maintained Nursery School Supplement which includes £0.42 per hour for Teacher Pay and Pension Grant which was rolled into the Maintained Nursery School Supplement.

The final Early Years Block allocation will be based on the January 2023 and January 2024 Early Years censuses.

- 3.21 The 2022 Autumn Statement announced that the core schools' budget will increase by £2 billion in the 2023-24 financial year, over and above totals announced at the Spending Review 2021. In the 2023-24 mainstream schools will be allocated additional funding through the mainstream schools' additional grant (MSAG) 2023-24. This is in addition to schools' allocations through the schools national funding formula. North Northamptonshire mainstream schools additional grant (MSAG) 2023-24 is a one-off additional £9.09m. Individual school details and payments will be announced in Spring 2023.

- 3.22 The revised allocations will be reflected in the final budget report.

4. Options

- 4.1 The provisional Local Government Finance Settlement has resulted in a shortfall in the Council's General Fund budget of £138k. The options are to either fund this through a reserve, namely the Business Rates reserve and as proposed in this paper, or alternatively to reduce the contingency by £138k. As the main movement related to changes in the Business Rates then the reserve was chosen, enabling the contingency sum to be protected at this point.
- 4.2 Funding the budget requirement through a contribution from reserves, together with the changes to the DSG funding (which are net neutral) will result in the following revised position and a balanced budget.

Table 4 – Updated Funding Statement and Net Budget Requirement Based on Settlement and Preferred Option

	2023/24 Budget £000	2023/24 Settlement £000	Change £000
Funding Streams:			
New Homes Bonus	(1,794)	(1,839)	(45)
Business Rates Funding Baseline	(98,956)	(98,316)	640
Business Rates Collection Fund	3,699	3,699	0
Council Tax	(189,419)	(189,419)	0
Council Tax Collection Fund	(1,971)	(1,971)	0
Revenue Support Grant	(5,405)	(5,740)	(335)
Social Care Grant	(11,427)	(11,427)	0
Social Care Funding – Other	(6,448)	(6,799)	(351)
Discharge Funding (Ring fenced) – renamed to Market Sustainability and Improvement Fund	(1,984)	(2,955)	(971)
Improved Better Care Fund (iBCF)	(13,010)	(13,138)	(128)
Rural Services Delivery Grant	(35)	(35)	0
Services Grant	(2,962)	(2,206)	756
Lower Tier Services Grant	0	0	0
Transfer to / (From) Reserves – note 1	(6,211)	(6,349)	(138)
Dedicated Schools Grant – note 2	(347,971)	(354,963)	(6,992)
Total Funding	(683,894)	(691,458)	(7,564)
Use of Resources:			
Service Budgets	335,923	336,495	572
Dedicated Schools Grant – note 2	347,971	354,963	6,992
Total Use of Resources	683,894	691,458	7,564
Net Budget Requirement	0	0	0

Note 1 – This funding now recognises that the shortfall of £138k identified in Table 1 has been funded through a contribution from the business rates smoothing reserve. All other areas remain in line with Table 2.

Note 2 – This now recognises the increase in funding and expenditure of £6.992m in relation to the Dedicated Schools Grant as shown in Table 3.

- 4.3 The updated position will be reflected in the final budget report to both Executive and Council in February.