



Open Report on behalf of Andy Gutherson, Executive Director - Place

Report to:	Highways and Transport Scrutiny Committee
Date:	23 January 2023
Subject:	Revenue and Capital Budget Proposals 2023/24

Summary:

The report outlines the budget proposals for the next financial year 2023/24.

The economic context in which the Council operates continues to be highly challenging, with continuing impacts from high levels of inflation. The Provisional Local Government Finance Settlement for 2023/24 was published for consultation on 19 December 2022, the Final Settlement is due to be published in February 2023. Further budgetary information is also awaited from the Lincolnshire District Councils, therefore the budget proposals for 2023/24 are currently based on best estimates and announcements to date and remain subject to change.

This report specifically looks at the budget implications for the Council's Highways and Transport services.

The Executive approved budget proposals, including those set out in this report, as its preferred option for the purposes of further consultation at its meeting on 4 January 2023.

Members of this committee have opportunity to scrutinise them and make comment, prior to the Executive meeting on 7 February 2023 when it will make its final budget proposals for 2023/24.

Actions Required:

The Highways and Transport Scrutiny Committee is asked to consider this report and members of the committee are invited to make comments on the budget proposals. These will be considered by the Executive at its meeting on 7 February 2023.

1. Background

- 1.1. Since early 2020, the Council's economic environment has been volatile. The Covid-19 pandemic was followed by a global economic crisis with the Ukraine war a key

contributing factor. Inflation has risen to unprecedented levels and is forecast to remain at high levels for a prolonged period. This has implications for our residents, businesses and the Council itself due to the effect inflation has in diminishing spending power.

- 1.2. Inflation has been high throughout the last financial year. The rate of inflation, as measured by the Consumer Prices Index (CPI) was 9% in April 2022, and continued to increase, peaking at 11.1% in October 2022. The 2022/23 budget proposal included some specific risk mitigation measures, such as increasing the size of the contingency and ensuring adequate level of reserves, which have provided capacity to respond to risks that have emerged during the year. The process for arriving at the 2023/24 budget proposal has also specifically considered how the Council's spending power and cost base might continue to be impacted and makes some adjustments in respect of this. Further details in respect of the services within the remit of this Committee are provided at paragraphs 1.14 to 1.20 below.
- 1.3. On 17 November 2022, the Chancellor of the Exchequer presented the Autumn Statement which was the first major fiscal statement since the mini budget in September 2022.
- 1.4. The Autumn Statement included notification of additional funding for 2023/24 to help Council's deal with some of the pressures currently being experienced, including inflationary pressures. Key announcements included:
 - A decision to delay the national rollout of social care charging reforms from October 2023 to October 2025. Funding for implementation will be maintained within local government to enable local authorities to address current adult social care pressures.
 - Additional investment worth £1bn in 2023/24 and £1.7bn in 2024/25 to promptly get people out of hospital and into social care. This funding will be split between the Better Care Fund and a ringfenced adult social care grant.
 - Additional flexibility in respect of council tax setting, with the referendum limit for general increases set at 3% and authorities with social care responsibilities also able to set an adult social care precept of up to 2% per year.
 - Confirmation that the 2023 business rate revaluation will be implemented from April 2023, and the multiplier frozen at 2022/23 levels with the Council compensated through additional grant funding.
 - Confirmation that the Government is seeking recommendations from Pay Review Bodies where applicable for pay awards for 2023/24.
 - The National Living Wage (NLW) will increase by 9.7% to £10.42 an hour from April 2023. In addition, the ambition for the NLW to reach two-thirds of median earnings by 2024, and for the age threshold to be lowered to those aged 21 and over, is retained.
- 1.5. The Provisional Local Government Finance Settlement for 2023/24 was issued on 19 December 2022 and again confirmed funding for just one year. The Government have however outlined their intentions and proposals for the 2024/25 settlement

but at the time of writing, and due to the late issue of the settlement, the impact assessment beyond 2023/24 is ongoing. Any changes will be incorporated into the Executive budget report in February 2023.

1.6. The various announcements translate into the following key changes from 2022/23 funding levels for Lincolnshire:

- An increase in the social care grant of £21.2m.
- A £6.3m increase in settlement funding assessment; comprising a £2.2m increase in revenue support grant and a £4.1m increase in National Non-Domestic Rates, NNDR (business rates) baseline funding.
- A £5.6m increase in the Adult Social Care (ASC) Market Sustainability and Improvement Fund. The total funding for 2023/24 will be £7.9m, which contains the original 2022/23 £2.3m Market Sustainability and Fair Cost of Care Fund.
- A new ASC Discharge Fund of £4.8m, which is expected to be allocated through the better care fund. There will be new grant conditions placed on both the ringfenced adult social care grant and the discharge funding and therefore the budget assumes new costs. The grant conditions are expected to be published in early 2023.
- A £3.4m reduction to the Services Grant, to reflect the reversal of the Health and Social Care NI Levy costs (cost reduction also assumed in the budget proposal).
- A £0.8m reduction in New Homes Bonus, which primarily reflects the expiration of legacy payments from prior year housing growth.
- Rural service delivery grant (RSDG) funding is maintained at 2022/23 levels.
- The improved better care fund (iBCF) is maintained at 2022/23 levels.
- The business rates top-up grant has increased by £3.7m to £95.1m. This reflects the impact of the business rates revaluation on the Council's estimated net NNDR yield and its NNDR baseline funding.

1.7. Members will be aware that in previous years, the Government had committed to two major financial reforms. The first was the move to 75% business rate retention. The second was the Review of Relative Needs and Resources (formerly known as the Fair Funding Review). The move to 75% business rate retention had already been scrapped twelve months previously. The Review of Relative Needs and Resources has since been delayed again, and at this point no definite implementation date has been announced.

1.8. There are several considerations in respect of business rates:

- The 2023 business rates revaluation will be implemented from April 2023, which will see every non-domestic property receive a new valuation. This impacts upon the Council's estimated net NNDR yield and its NNDR baseline funding, giving rise to a £3.7m increase in the top-up grant.
 - The business rates multiplier has been frozen for the third year in succession. The Council will be compensated for its share of income foregone through additional section 31 grant.
 - The complete taxbase position for business rates will not be known until the end of January when budgetary information is received from the District Councils.
- 1.9. The Council's financial planning framework seeks to forecast the cost base and funding base over a medium-term period, normally three or four years. At present, the Medium-Term Financial Plan indicates that a balanced budget cannot be achieved in any of the three years from 2023/24 through to 2025/26 without support from reserves. However, this is prior to receiving the Lincolnshire District Councils confirmation of Council Taxbases and Collection Fund positions affecting 2023/24, and without any allowance for the above-mentioned reforms to local government funding which could potentially affect 2025/26 onwards.
- 1.10. In view of the continuing uncertainties about future levels of funding and the overall economic context, a one-year budget is proposed for 2023/24.
- 1.11. At its meeting on 4 January 2023 the Executive approved proposals for the Council's revenue and capital budgets to be put forward as a basis for consultation. The Executive noted the options for a proposed Council Tax increase of between 2.99% and 4.99% and reserved its position for the setting of a precept and use of reserves for the 2023/24 budget pending further consultation, scrutiny and final funding announcements.

Revenue Budget

- 1.12. Budgets have been reviewed in detail based on the latest available information to arrive at the proposals set out in this report. A number of new cost pressures have emerged in addition to the pressures identified for 2023/24 in the previous year's budget process. In some areas, savings which can be made through efficiencies with no or minimal impact on the level of service delivery have also been identified. In developing the proposed financial plan, budget holders have considered all areas of current spending, levels of income and council tax plus use of one-off funding (including use of reserves and capital receipts) to set a balanced budget.
- 1.13. Table A shows the proposed revenue budget for the Council's Highways and Transport services.

TABLE A

2023/24 Revenue Budget	2022/23 Budget	Cost Pressures	Savings	Proposed Budget 2023/24
	£000	£000	£000	£000
Transport Services	51,752	4,198	-2,055	53,895
Highways Asset Management	15,053	5,518	-30	20,541
Highways Services	10,537	0	0	10,537
Highways Infrastructure	1,129	0	0	1,129
Design Services	10,914	3,833	0	14,747
Total	89,385	13,549	-2,085	100,849

- 1.14. The overall budget proposals have allowed for pay inflation of 4% in 2023/24 including the effect of the change in the national living wage from April 2023. This is however, currently being held centrally pending agreement of any pay settlement, following which service budgets will be updated and it is therefore not currently reflected in the table above.
- 1.15. There are unavoidable service specific cost pressures for 2023/24 totalling £13.549m which will support the delivery of Council services, these are partially offset by savings and efficiencies of £2.085m which do not negatively impact the level of service delivery.
- 1.16. From 2022/23 onwards, Transport Services has included the budget for providing Educational Transport which was previously reported under Children’s Services. The budget proposals include an estimated cost pressure of £4.198m arising from continuing inflation and challenging market conditions for the delivery of this service to meet statutory and policy requirements. This is partially offset by savings resulting from the ongoing transformational programme, with the further development of new procurement tools and approaches, improved contract management, an overhaul of routing and demand management activity expected to yield savings in the year of £2.055m.
- 1.17. There are however significant external factors currently impacting the cost of passenger transport both in the public transport and educational transport markets, including national living wage rises, inflationary challenges, a national drivers’ shortage and rising fuel prices. This gives rise to significant risk that the cost of educational transport, which is already a volatile, demand led budget, will need to increase further, over and above the estimated pressure. A comprehensive review of the cost base, taking into account changes in activity levels, and the impact that inflationary pressures and the change in the national living wage have on contract rates is being undertaken. It is expected that this will result in additional cost, but the amount cannot currently be quantified. Any further changes to the cost base will be reported to the Executive at its meeting on 7 February 2023.
- 1.18. The impact on public transport expenditure is currently expected to be manageable within existing budgets but as the high levels of government support

for bus operators put in place during the Covid pandemic is progressively withdrawn, this will be kept under review to help inform future budgetary requirements.

- 1.19. The pronounced inflationary pressures being experienced in the construction sector result in a forecast increase of £5.488m in the cost of plant, labour, materials and equipment in the Highways maintenance contract. This is exacerbated by the growth of the highway network, with an average 18km of highway adopted each year inevitably leading to increased maintenance costs and bringing the total cost pressures in Highways Asset Management to £5.518m. This is slightly offset by savings of £0.030m arising from revised business support arrangements and lease car savings.
- 1.20. Increased energy costs for signals and street lighting driven by price inflation result in a further budget pressure of £3.833m for 2023/24.

Capital Programme

- 1.21. The ten-year Capital Programme previously approved has been reviewed in line with the principles set out in the Council's Capital Strategy, including the principle of affordability. The full Gross Programme totals £131.290m for 2023/24 plus a further £427.561m in future years. After grants and other funding contributions are taken into account, the Net Programme is £82.657m in 2023/24 and a further £275.087m in future years.
- 1.22. Due to the economic context and uncertainty in future funding set out earlier in this report, no new projects have been added to the Capital Programme in this budget process. However, the block budgets for rolling maintenance programmes have been continued forward and the budgets for some existing schemes have been increased due to inflationary impacts.
- 1.23. Table B overleaf, shows the proposed gross capital programme for the Council's Highways and Transport services.

TABLE B

TABLE B		Revised Gross Programme 2022/23 £m	Revised Gross Programme 2023/24 £m	Gross Programme Future Years £m
Capital Programme (2022/23, 2023/24 and Future Years)				
HIGHWAYS & TRANSPORT				
Spalding Western Relief Road - Section 5	A 6.5km road linking the A1175 and A16 to the south and east of Spalding, to the B1356 Spalding Road to the north of Spalding, via the B1172 Spalding Common - Section 5.	13.261	19.291	0.000
Spalding Western Relief Road - Section 1	Completion of Spalding Western Relief Road - Section 1.	0.100	0.000	27.700
Spalding Western Relief Road - Section 1 - S106 income expectation	Development Contribution towards completion of Spalding Western Relief Road - Section 1	0.000	0.000	-5.520
Spalding Western Relief Road - Section 5 - S106 income expectation	Development Contribution towards completion of Spalding Western Relief Road - Section 5	0.000	0.000	-4.200
Integrated Transport Block	Schemes including minor capital improvements, rights of way, road safety, public transport and town/village enhancements.	3.092	3.337	3.337
Transforming Street Lighting	Programme of street lighting improvement.	0.071	0.000	0.000
Energy Efficiency Street Lighting Schemes	Replacement of SOX lanterns with more efficient LED bulbs to enable longer-term savings on energy.	0.224	0.224	0.000
Highways Asset Protection	Maintenance of roads, bridges, safety fencing, street lighting, signs and lines, and traffic signals.	46.533	38.723	38.723
Network Resilience	Gritter vehicle replacement programme.	1.579	1.680	0.840
A631 Middle Rasen to Bishops Bridge Safer Road Fund	Improvement on A631 Middle Rasen to Bishops Bridge, under Safer Roads Funds.	0.020	0.000	0.000
A631 Louth to Middle Rasen Safer Road Fund	Improvement on A631 Louth to Middle Rasen, under Safer Roads Funds.	0.700	0.000	0.000
Lincoln Eastern Bypass	Construction of a 7.5km highway to the east of Lincoln, connecting the A15 to the north and south of Lincoln	3.110	2.000	0.000
Grantham Southern Relief Road	The Grantham Southern Relief Road aims to improve the town's infrastructure and growth by the construction of a 3.5km relief road in three phases.	40.584	15.061	17.872
A46 Welton Roundabout (Integrated Transport/NPIF)	Improvement to A46 Welton junction.	0.225	0.000	0.000
Holdingham Roundabout	Improvement to Sleaford Holdingham Roundabout to improve traffic flow.	0.091	0.000	0.000
A46 Roundabouts	Improvements to Riseholme and Nettleham roundabouts by extending/adding extra lanes to increase capacity and reduce congestion.	0.019	0.000	0.000
Corringham Road (development with WLDC)	Major scheme development of Corringham Road, in partnership with West Lindsey District Council.	0.016	0.000	0.000
A52 Skegness Roman Bank	Full reconstruction of a total of 550m of the A52 Roman Bank in Skegness.	1.116	0.000	0.000
Local Highways Improvements (Pinchpoints) to support Coastal Route	Improvement of the transport corridor to the Lincolnshire Coast by improving pinch-points along the route (A57, A46, and A158).	0.665	0.000	16.795
Highways Rural Road Fund	A targeted investment in the maintenance and improvement of minor and unclassified rural roads across the County.	1.834	0.000	0.000
Highways B Class Roads and Lower	Targeted investment in the maintenance and improvement of minor and unclassified roads across the County.	8.287	0.000	0.000
Other Highways	Block of smaller Highways projects.	0.892	0.000	0.000
Boston Development Schemes (Infrastructure & Economic)	A range of initiatives to support economic and housing growth whilst reducing traffic congestion in and around Boston.	0.000	2.754	0.000
A16 Levelling Up Fund	Improvements to the A16 corridor in the area around Boston and South Holland	2.197	0.000	0.000
Boston Dolphin Lane	Public realm improvements in Dolphin Lane, Boston	0.550	0.000	0.000
North Hykeham Relief Road	Completion of a ring road by linking the Lincoln Eastern Bypass with the Western Bypass.	2.029	5.115	181.579
Total		127.187	88.185	277.127

- 1.24. Issues in the construction of the eastern embankment for the Grantham Southern Relief Road bridge, in particular the underlying ground not being as robust as the designer had anticipated or designed the bridge to sit on, has necessitated the bridge being lengthened by approximately 70m to avoid the poor ground. This is expected to result in approximately 18 months delay and increase costs and consequently it is proposed to increase the budget allocation for this project by £24.478m.
- 1.25. Although construction of the North Hykeham Relief Road is not expected to commence until late 2025, the current material and labour inflation will have a significant impact on the scheme costs, and it is prudent to plan accordingly. This results in a proposed increase of £35.882m in the scheme's budget.
- 1.26. As the Department for Transport (DfT) funding for highways maintenance is expected to continue to remain at the reduced level implemented in 2021/22 until at least 2024/25, this activity continues to be supplemented by the £12.3m approved by Council in the revenue budget in February 2022. However, as noted at the beginning of this report, inflation will continue to diminish the spending power of this funding.
- 1.27. To ensure the capital programme for 2023/24 is affordable and to recognise the remaining risks of the major highway schemes currently in progress, some budgets for schemes where spend has not yet been committed have been re-phased into later years to better reflect the likely spend pattern and to reduce the impact in the short-term of increased spend on schemes that have already commenced
- 1.28. The capital programme is currently augmented by funding from the Development Fund Initiatives earmarked reserve, with a total of £3.444m having been approved in previous budgets to increase capacity to carry out drainage investigation and repair work, reducing deterioration and improving prevention of localised flooding issues. That scheme is continuing into 2023/24 with a forecast spend for the year of £1.387m.

Further consultation

- 1.29. A consultation meeting with local business representatives, trade unions and other partners is scheduled to take place on 27 January 2023.
- 1.30. The proposals are publicised on the Council website together with the opportunity for public comment via www.letstalk.lincolnshire.gov.uk up until 26 January 2023.
- 1.31. All consultation comments and responses will be available to be considered when the Executive makes its final budget proposals on 7 February 2023.

2. Conclusion

- 2.1. These budget proposals reflect the level of government funding expected to be available to the Council and an assumed increase in Council Tax in 2023/24 of between 2.99% and 4.99% (inclusive of a 2% adult social care precept).
- 2.2. A thorough review of the Council's services was carried out during the budget process which has identified unavoidable cost pressures, some savings with minimal or no impact on the level of service provided and the capital programme has been reviewed. The budget proposals therefore aim to reflect the Council's priorities whilst operating within the resources available to it.

3. Consultation

a) Risks and Impact Analysis

An Equality Impact Assessment will be completed for the proposed increase in Council Tax. This will be reported to the Executive at its meeting on 7 February 2023.

Further risk and impact assessments will need to be undertaken on a service-by-service basis.

4. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Council Budget 2023/24 Executive Report 4 January 2023	Democratic Services

This report was written by Keith Noyland, Strategic Finance Lead – Place, Fire & Rescue who can be contacted at keith.noyland@lincolnshire.gov.uk.

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