



**Open Report on behalf of Andy Gutherson, Executive Director – Place**

Report to:	<b>Highways and Transport Scrutiny Committee</b>
Date:	<b>29 January 2024</b>
Subject:	<b>Revenue and Capital Budget Proposals 2024/25</b>

**Summary:**

This report details the Council's budget proposals for the financial year 1 April 2024 – 31 March 2025 and the assumptions made given the national context.

The economic context in which the Council operates continues to be highly challenging, with continuing impacts from high levels of inflation and the budget proposals make a number of adjustments to reflect the increased cost of providing services.

The Local Government Settlement published in February 2023, provided a reasonable estimation of the potential funding for 2023-24 and 2024-25. The provisional Local Government Financial Settlement 2024-25 published 18 December 2023 has continued with existing spending plans meaning no additional funding above that already forecast.

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

**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 6 February 2024.

## 1. Background

- 1.1 In February 2023, the Council approved plans for revenue spending to support delivery of the Council plan, achieve its strategic objectives and legal duties for the benefit of residents and businesses. This was guided by the financial strategy approved as part of this process, providing the mechanisms to ensure the council remains financially sustainable and resilient.
- 1.2 As part of the Council's financial planning process, the previously approved medium term financial plan is reviewed in depth over the summer and into the autumn, which informs the preparation of a 2024-25 budget proposal.
- 1.3 The key messages from scrutiny and public consultation are fed into the process and contribute towards an updated budget proposal to the Executive on 6th February 2024. At this meeting, the Executive will be invited to approve a final budget proposal to be taken to the budget setting meeting of Full Council which will be held on Friday 23rd February 2024.
- 1.4 This budget proposal focusses on the 2024-25 budget specifically for the Council's Highways and Transport services. The feedback from the Scrutiny Committee will inform the final budget proposal to Full Council.
- 1.5 The economic environment continues to be a significant risk. The economy has been subject to unprecedented inflation, which means that the cost of goods and services have increased at a higher rate than the Government's target, over a prolonged period. This has led to a challenging operating environment, due to its inflationary exposure within the cost base (contracting and staffing costs). The revised inflation forecasts are 4.6% (2023 Q4), 3.1% (2024 Q4), 1.9% (2025 Q4), and 1.5% (2026 Q4). Inflation is not expected to return to below the 2% target for until 2025.
- 1.6 On 22 November 2023, the Government set out their spending plans for the medium term via the Autumn Statement. Following the Autumn Statement, the Department for Levelling Up, Housing and Communities (DLUHC) translate national spending limits into individual allocations for local authorities via the Local Government finance settlement. The provisional settlement was published 18 December 2023.
- 1.7 On 18th December 2023, the Department published the draft 'Local Government finance settlement 2024/25' via a written statement to Parliament. This confirmed funding allocations in line with the policy statement. At a national level, core spending power is forecast to increase to £64.1bn from £60.2bn (6.5% overall increase). The key points to note for Lincolnshire are as follows:
  - The revenue support grant has been inflated by £1.549m or 6.6% (September CPI), with an additional adjustment rolling in the fire pension grant (£1.437m), a net nil change,

- Business rate baseline funding and multiplier compensation grant is forecast to increase by £8.729m or 6.5%,
- The core council tax referendum limit for local authorities is set at 3%, in addition to an adult social care precept of 2% for all authorities responsible for the delivery of adult social care services;
- Funding announced in the Autumn Statement 2022, an uplift in social care grants:
  - i. an additional £692 million will be distributed to local authorities through the Social Care Grant for adult and children’s social care;
  - ii. an additional £200 million will be distributed in 2024 to 2025 through the Discharge Fund;
  - iii. Maintaining the improved better care fund at 2023/24 levels;
  - iv. £1,050 million in 2024 to 2025 will be distributed for adult social care through the Market Sustainability and Improvement Fund (MSIF).
- An additional one-off round of new homes bonus payments in 2024/25 of £0.952m;
- Continuation of the rural services delivery grant at 2023/24 levels £8.134m;
- The Services Grant will reduce from £4.508m in 2023/24 to £0.709m in 2024/25. This funding line has been reduced to fund inflationary increases in other lines of the settlement,
- The Council does not benefit from the funding guarantee due to its core spending power increasing by more than 3%.

1.8 In addition, the Government set a policy steer, relating to the following points:

- Authorities are asked to continue to consider how they can use their reserves to maintain services over this and the next financial year, recognising that not all reserves can be reallocated, and that the ability to meet spending pressures from reserves will vary between authorities.
- The Government continues to explore ways to move councils away from establishing ‘4 day working week’ practices, which in their view do not represent good value for taxpayers’ money.
- The Exceptional Financial Support framework is available to provide support where a council has a specific and evidenced concern about its ability to set or maintain a balanced budget, including where there has been local

financial failure. Where councils need additional support from government, they should take every possible step to minimise the need for that support to be funded by national taxpayers. As part of that process, the government will consider representations from councils, including on council tax provision.

- 1.9 Members will be aware that for several years now, the Government has committed to major financial reforms in recognition that the current funding distribution mechanisms are outdated relative to need and resource availability (i.e. the Review of Relative Needs and Resources or a reset of accumulated business rates growth). The Government confirmed in the policy statement that they remain committed to improving the local government finance landscape in the next Parliament, however the current priority has been to provide one year funding stability.
- 1.10 Overall, the settlement was broadly in line with expectations, even if the sector had hoped for additional funding to support with rising costs particularly due to inflation and demand. No additional funding has been made available for the cost pressure created by the greater-than-expected increase in the National Living Wage announced by the government in the autumn. The final settlement is due for publication in February 2024, following the standard consultation process.
- 1.11 The final settlement is due to be published in February 2024, following the usual consultation process.
- 1.12 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 four years from 2024/25 through to 2027/28 without support from reserves. However, this is prior to receiving the Lincolnshire District Councils confirmation of Council Taxbases and Collection Fund positions affecting 2024/25.
- 1.13 In view of the continuing uncertainties about future levels of funding and the overall economic context, a one-year budget is proposed for 2024/25.
- 1.14 At its meeting on 9 January 2024 the Executive will consider proposals for the Council's revenue and capital budgets to be put forward as a basis for consultation, including the proposed Council Tax increase and use of reserves.

## **2. 2024-25 Revenue Budget**

- 2.1 Budgets have been reviewed in detail based on the latest available information. A number of new cost pressures have emerged in addition to the pressures identified for 2024/25 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.

- 2.2 The table below shows the total proposed revenue budget for the Council's Highways and Transport services.

Revenue Budget	2023/24 Budget	Cost Pressures	Savings	2024/25 Proposed Budget
Transport Services	54.332	3.172	0	57.504
Highways Asset Management	43.082	3.100	-2.500	43.682
Highways Services	4.259	0	0	4.259
Highways Infrastructure	0.602	0	0	0.602
Design Services	0.332	0	0	0.332
	<b>102.607</b>	<b>6.272</b>	<b>-2.500</b>	<b>106.379</b>

- 2.3 The overall budget proposals have allowed for pay inflation of 4% in 2024/25 including the effect of the change in the national living wage from April 2024. 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.

- 2.4 Although not as pronounced as in previous years, continuing inflationary pressures in the construction sector result in an expected increase of £3.1m in the cost of plant, labour, materials and equipment in the Highways maintenance contract.

- 2.5 A £3.2m cost pressure for the delivery of educational transport to meet statutory and policy requirements arises from continuing inflation, service demand and challenging market conditions.

- 2.6 Based on the latest ESPO Energy Report, increases in the energy costs for street lighting not being as high as previously anticipated reduces the budget requirement for 2024/25 by £2.0m.

- 2.7 Efficiency gains in the data capture and invoicing for 3rd Party damage to highways assets and improved productivity in network compliance are expected to generate savings of £0.5m.

### 3. Capital Programme

- 3.1 A ten year Capital Programme has been compiled in line with the principles set out in the Capital Strategy, including the principle of Affordability.

- 3.2 The economic context set out earlier on in this report continues to pose financial risk to capital programme delivery. There are two elements to consider, the first is ongoing inflation in capital schemes, which continues to be visible and increases with

time. The second is the cost of financing, which has increased due to the increase in the base rate. It is hoped that these risks recede with time, and will continue to be monitored and reported.

3.3 There are new schemes added to the programme following prior Executive approval. These are all planned for 2024/25, and are to be funded via revenue. The schemes are detailed below:

- Waste Transfer Stations (£6.1m) – £6.1m agreed additional investment from revenue for the waste transfer station infrastructure in preparation for implementing the requirements of the Environment Act. This is enabled by a windfall energy from waste gain in 2023/24. Additional costs of approx. £3m are forecast to complete the stations and will be included in the future years capital programmes.
- Flood investigations and alleviation (£4m) – in recognition of the rising challenges around water level management, the Executive decided in early December to set aside additional funding to enable further works to be designed, planned and implemented.
- Cross Keys Electrification (£1.2m) – funded by additional traffic regulation order income, the scheme intends to replace the hydraulics on the bridge to ensure a more resilient and efficient operation.
- LED Swap Out (£1.5m) – funded by the in-year forecast energy underspend, the proposal is to invest the underspend into LED lighting, which is expected to lead to reductions in energy consumption and cost.

3.4 The table below shows the proposed gross capital programme for the Council's Highways and Transport services.

Scheme	2024/25 Investment	Future Years Investment
Highways Asset Protection (DfT funding)	38.723	
Integrated Transport (DfT funding)	3.337	
Network Resilience	0.240	0.600
Local Highways Improvements		16.795
Grantham Western Relief Road	30.036	0.837
Spalding Western Relief Road	-3.649	
North Hykeham Western Relief Road	4.424	177.154
Lincoln Eastern Bypass	2.800	
Spalding Western Relief Road Section 1	0.090	22.180
Spalding Western Relief Road Section 5 S106	-2.100	-2.100
Cross Keys Bridge	1.200	
LED Swap Out	1.500	
<b>Total</b>	<b>76.601</b>	<b>215.466</b>

#### 4. Conclusion

- 4.1 A thorough review of Council services was carried out during this year's budget process. Cost pressures, income changes and efficiencies have been identified, and the Capital Programme has been reviewed. The budget proposals aim to reflect the Directorate priorities aligned to the councils Corporate Plan whilst operating within the resources available to it.
- 4.2 The budget proposals have been developed alongside, and in accordance with, the draft Medium Term Financial Strategy and a proposed final version of this Strategy will be reported to the Executive in February 2024. Final budget proposals will be reported to the Executive on 6th February 2024.

#### 5. 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 6 February 2024.

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

#### 6. 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 2024/25 Executive Report 9 January 2024	Democratic Services

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