

CCN

A n a l y s i s

County Budgets 2022-24

Counting the costs of inflation



October
2022

Earlier this year, the Society County Treasurers (SCT) undertook a survey on the impact of inflationary pressures on 40 county and unitary council budgets for the current financial year. This informed research, published by the County Councils Network (CCN) earlier this year, on the impact of inflation on these councils budgets.

To build on this, local government finance specialists LG Futures were commissioned to refresh and enhance the robustness of the June survey, before a new round of returns, interpret the results as received by late September and perform associated desktop modelling. LG Futures also undertook further desktop modelling to estimate demand pressures inherent in 2022/23 budgets, as well as projections for 2023/24. This was designed to use, and complement, the results of the inflation survey, specifically in terms of day-to-day spending on services.

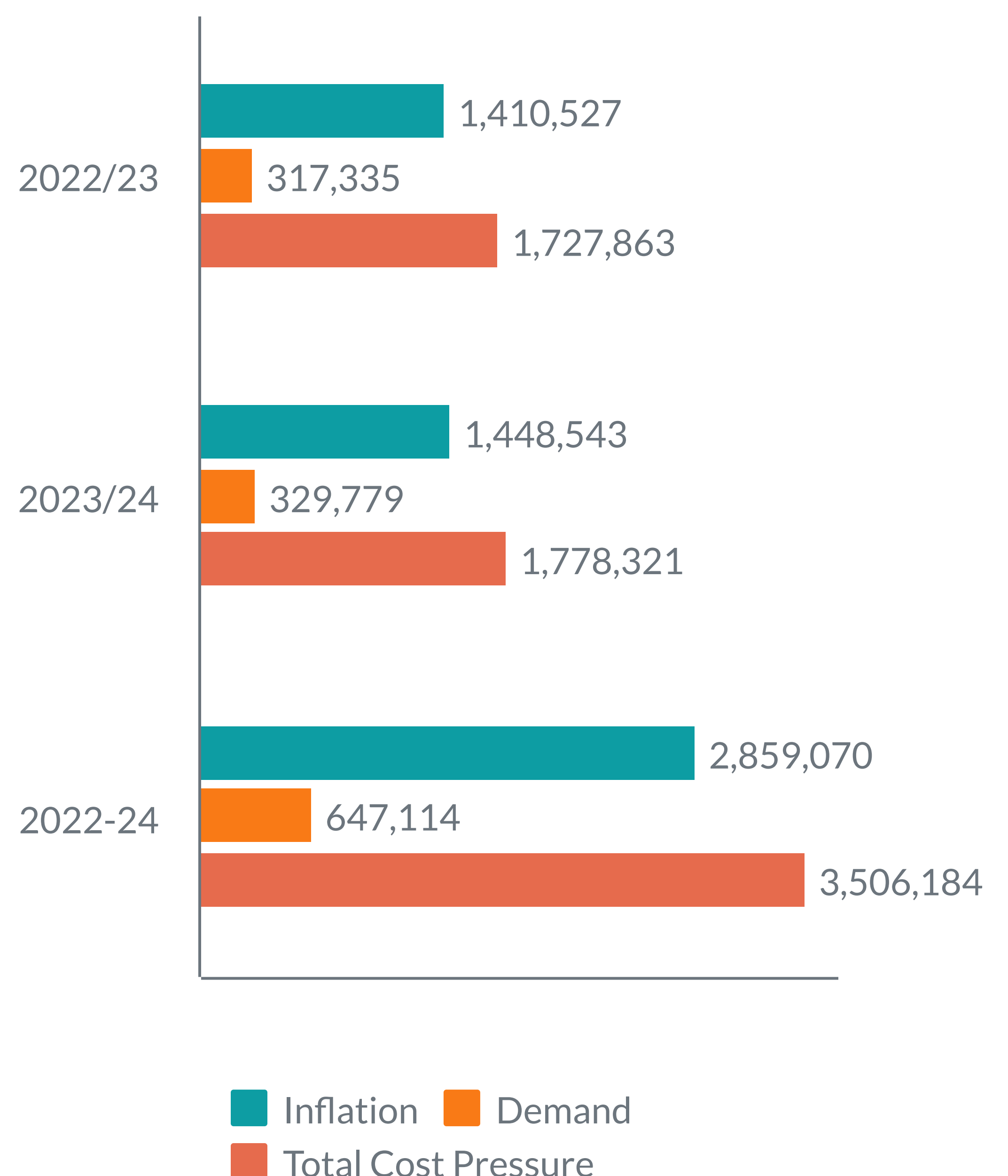
This report sets out LG Futures' findings, arising from the research, alongside commentary from the CCN on the implications of the results.

Key Findings

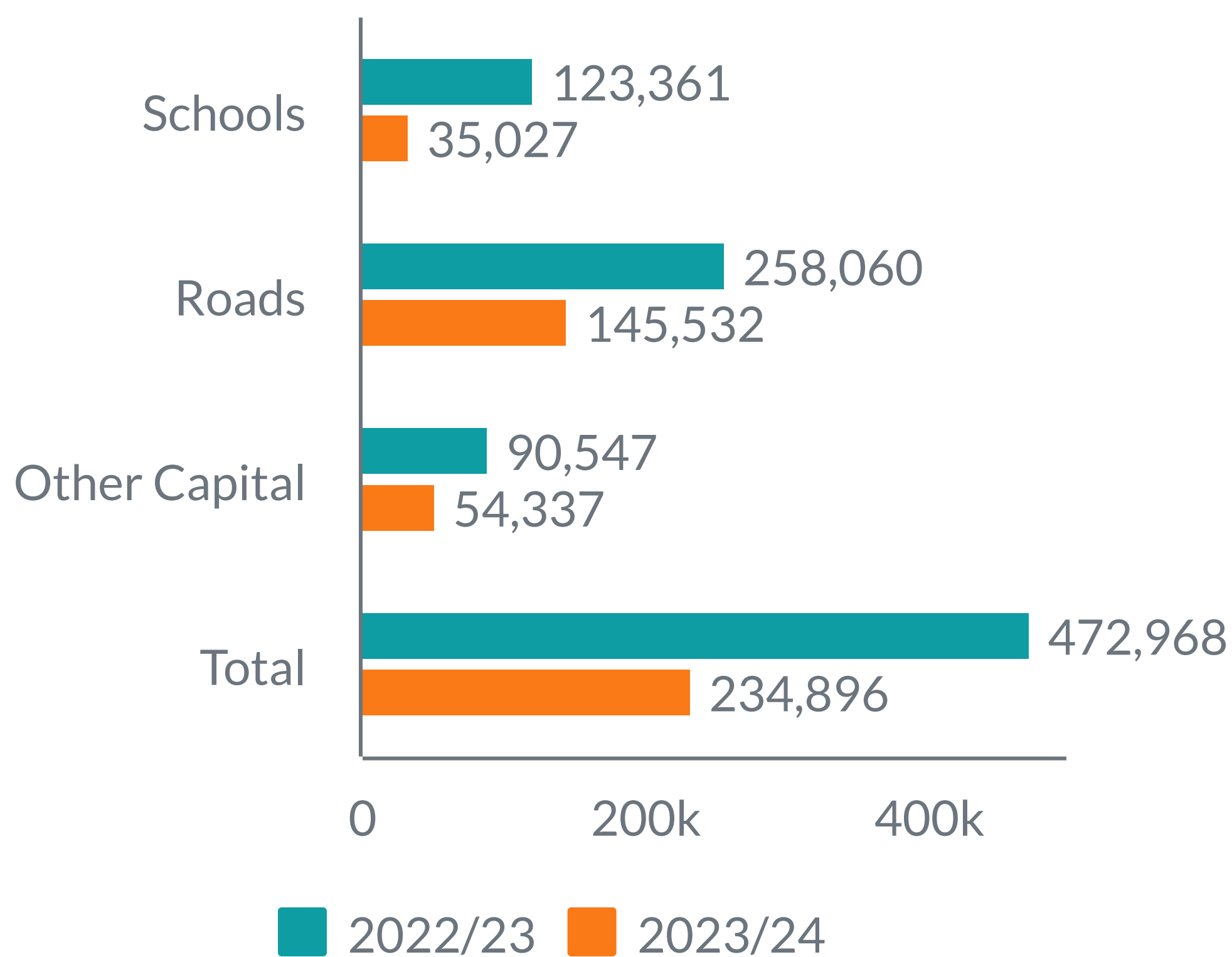
- The results of the analysis show that total inflation-linked pressures on 2022/23 revenue spending amount is estimated at £1.41bn, with £591m of this unbudgeted for in SCT/CCN councils.
- In 2022/23, running costs constitute 69% of all inflationary costs, followed by pay 24% and energy 7%. In 2023/24, with pay rewards expected to be lower, alongside energy costs, running costs share of inflationary costs rises further to 76%.
- At service level in 2022/23 adult social care accounts 47% of total inflationary costs (£659m) followed by children's services at 18% (£246m). Highways and transport, including road maintenance, street lighting, bus and concessionary fares, accounts for 11% (£158m).
- The results of the analysis show that total inflation-linked pressures in 2023/24 on revenue spending are estimated to rise slightly next year to £1.45bn in SCT/CCN councils.
- Adult social care is expected to see higher inflationary costs next year, alongside looked after children and environmental services. This is the driver of higher total inflationary costs in 2023/24.
- Overall, total inflationary costs represent 7% of total annual budgets before inflation.

- The results of the analysis show that demand is set to add £317m to SCT/CCN budgets in 2022/23 and a further £330m in 2023/24.
- As expected adult social care accounts for the single largest element, some 60% of all demand costs over the two years. This higher than the share of inflationary costs for these services.
- Overall SCT/CCN councils face a total cost pressure of £1.73bn in 2022/23, rising to £1.78bn in 2023/24. This is a combined revenue cost pressure of £3.5bn over this year and next.
- The level of additional inflationary and demand costs are more than double that of previous estimates by PwC for CCN, which estimated costs would rise £1.5bn over the same two-year period due to a combination of service demand and inflation.
- Adult social care, again, represents the single biggest cost pressure; some 49% of all costs (£1.7bn). This is followed by children's social care, representing 20% (£667m) and highways and transport at 10% (£355m).

SCT/CCN/LG Futures inflation survey and LG Futures demand Modelling (£000s)



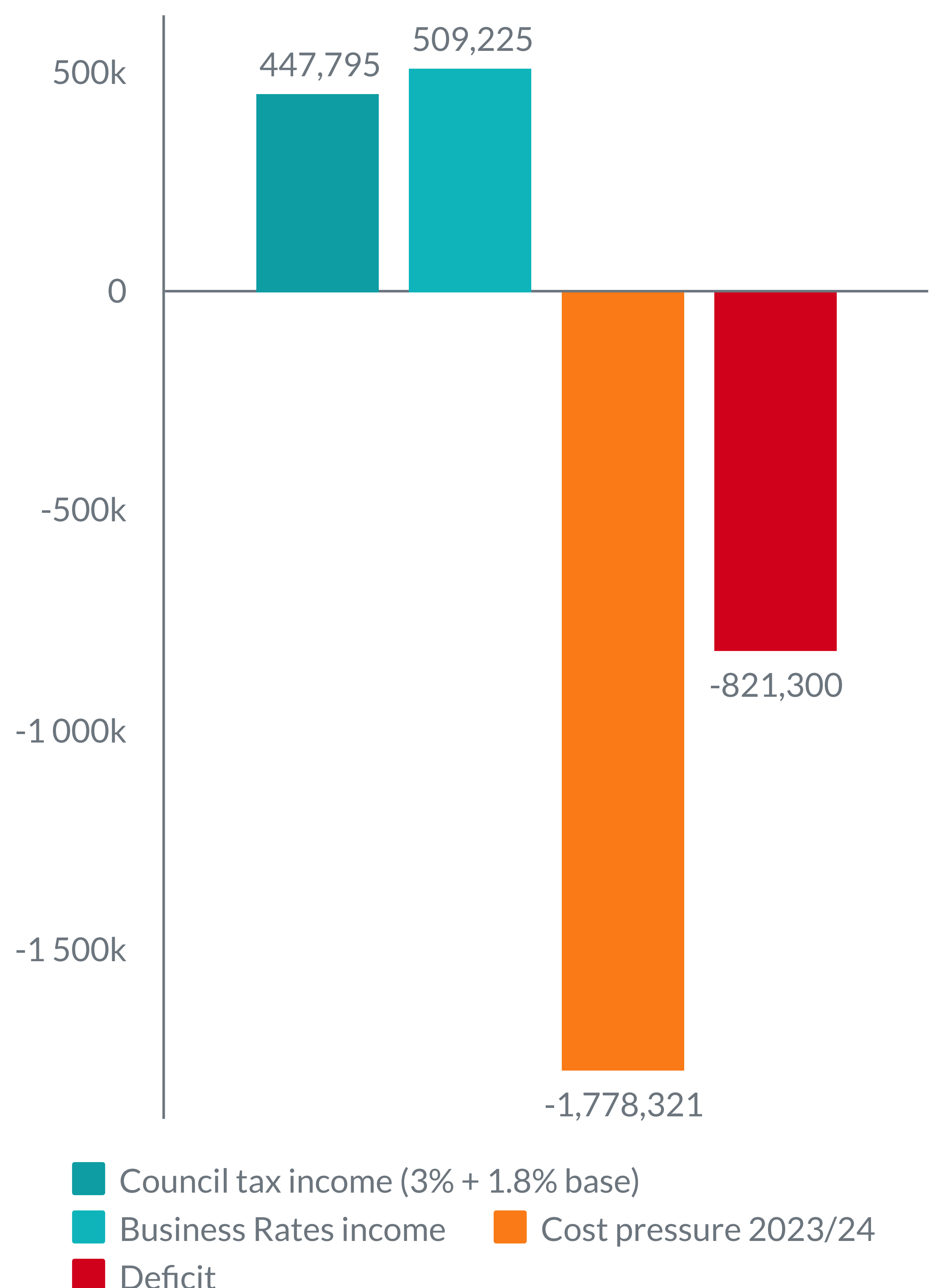
SCT/CCN/LG Futures Survey - Capital budget inflation by category (£000s)



- As part of the inflation survey, councils were asked to provide estimates of additional (not previously budgeted) pressures on their capital programmes in 2022/23, as well as an early estimate of pressures on capital budgets in 2023/24. This was split into expenditure on roads, schools and other programmes.
- The results of the analysis shows that indicated additional pressures of £472m in 2022/23, if upscaled to full SCT membership on a population basis. Early estimates from respondents for 2023/24 suggest pressures £234m if upscaled to full SCT membership on a population basis, but many respondents have said that it is too early to estimate pressures for next year.
- At the time of writing, the government has not announced any additional funding for councils in 2023/24, other than council tax flexibilities signalled at the time of the 2021 Spending Review. There is also a likely increase in councils' business rate baselines, normally worth the equivalent of September RPI inflation, with the government historically compensating councils for the difference between RPI and whatever the actual increase in the business rates multiplier is.
- For SCT/CCN member authorities, a 3% increase in council tax, coupled with 1.8% council tax base growth (same as 2022/23), plus a fully compensated 12.6% increase in the business rates baseline (September RPI), would deliver an increase in Core Spending Power of £957m in 2023/24.

- This leads to a funding gap of £821m - or 3.7% - for SCT/CCN member councils in 2023/24 without additional funding from government.
- It is important to recognise this would be on top of £591m of additional, unfunded, inflationary pressures from 2022/23, which do not receive funding from government (or dealt with by councils) in a permanent fashion.
- At the time of writing this report, the government is preparing the Medium-term Fiscal Plan, which will potentially reopen the Spending Review 2021 settlements and lay a path for further fiscal tightening in the medium term. If local government is affected by these decisions, they will compound the challenging situation councils already face.

LG Futures CSP analysis 2023/24 (£000s)



The findings of this research make for stark and sober reading. Throughout this year, CCN alongside the Local Government Association have warned of the impact that inflation, coupled with rising demand, was having on council budgets and this research provides further robust analysis on the severity of the challenges facing county and unitary authorities.

In considering public sector spending decisions as part of the Medium-Term Fiscal Plan, the Treasury should be under no illusion on what the impact will be on local services if there is no additional funding for councils to meet these inflationary costs, and indeed, the government goes further by reducing existing Spending Review commitments.

The previous period of austerity between 2010 and 2018 resulted in billions of efficiency savings in CCN member councils, with many of the highly valued discretionary services provided by councils already reduced. The recent increases in funding since 2019, including the welcome financial support during Covid-19, have helped stabilise council finances.

While this relative stability over recent years will mean that a majority of councils will use reserves and in-year savings to keep their heads above water this year, the reality is that our councils face making severe reductions to frontline services even if councils funding levels are simply maintained at current levels.

The prospect of funding reductions on top of these existing pressures would be unthinkable and devastating for the services our local constituents rely on.

It is already inevitable that pre-existing unfunded inflationary pressures mean councils are having to plan on further reducing the number of libraries, bus routes, school transport and road maintenance budgets to meet inflationary costs next year.

Inflationary pressures in adult social care, coupled with the cost and workforce implications of charging reforms, also mean CCN members will potentially have no choice but to further reduce care packages and eligibility for services.

But additional spending cuts would further diminish services to a 'core offer' of bare minimum statutory service levels, removing most, if not all, preventative services to focus on ensuring that councils can safely deliver their statutory obligations, particularly in adult and children's social care.

Reducing preventative services would be a false economy and cost the public purse more in the long run, but councils will have little choice. Most importantly, this will inevitably mean that some of the most vulnerable people in our society are adversely impacted.

Alongside this, escalating inflationary costs mean capital investments in infrastructure, road and major transport projects are already being scaled back, but if further funding reductions were implemented, they would have to be culled at an accelerated rate. This will reduce economic growth and productivity at a time when the country can least afford it.

For some councils, even extreme levels of service reductions will not be enough. Funding reductions, on top of inflationary pressures, will intensify the risk of councils issuing a Section 114 notice, where a council is unable to balance their budget as they are legally required to do so.

CCN member councils will continue to do all they can to reduce costs and transform local services to protect the critical frontline services the most vulnerable in our society rely on.

But there are simply no longer any easy 'efficiency savings' or low hanging fruit to cut from CCN member councils. Recent increases in funding staved off the prospect of the 'core offer' of services becoming a reality, but we are now facing down the barrel of this once again and a situation worse than the previous period of austerity.

At the very least, CCN implore the Treasury to maintain existing Spending Review commitments, including the £1.6bn of additional resources committed up to 2024/25. But, as this analysis shows, the government will need to go further to support councils to cope with rising inflationary costs by increasing direct funding or reprioritising existing spending commitments.

That's why CCN has recently called on the government to delay adult social care charging reforms by at least 12 months,¹ retaining and reinvesting earmarked funding in 2023/24 for implementing the reforms for existing pressures to stabilise the system. Alongside this, CCN has called on the previous government to deliver their commitment to rebalance funding between health and social care, allocating more of the £13bn committed to tackling the NHS backlog towards councils to help reduce pressure on social care services and the wider health system.²

The cost-of-living crisis is impacting every part of society and local councils are no exception to this. Global price increases, fuel hikes, and wider inflationary pressures are having a major impact on day-to-day services and construction projects.

These new financial strains come at time when demand for services such as adult and children's social care are continuing to intensify, and councils have taken on new responsibilities with the Homes for Ukraine and Afghan resettlement schemes.

Earlier this year, the SCT undertook a survey on the impact of inflationary pressures on 40 county and unitary council budgets for the current financial year. This informed research, published by CCN in June 2022, which showed that inflation was set to add £1.1bn of additional revenue pressures in 2022/23, an increase of £435m since councils set their budgets.³

Since the publication of this research inflation has continued to rise, hitting a 40 year high of 10.1% in September.⁴ At the same time, we have seen the appointment of a new government. The new Chancellor has announced that the government will set out a new fiscal mandate as part of a 'Medium-term Fiscal Plan' on 17th November. In the lead up to this, the Treasury has asked all government departments to set out 'efficiency savings' as part of a plan to reduce public spending over the coming years.⁵

Even before the announcement of the Medium-term Fiscal Plan, there was a pressing need to further understand and evidence the extent to which inflation is impacting councils budget ahead of this year's local government settlement.

Therefore, CCN and the SCT commissioned local government finance specialists LG Futures to refresh and enhance the robustness of the June survey, before a new round of returns, interpret the results as received by late September and perform associated desktop modelling.

LG Futures also undertook further desktop modelling to estimate demand pressures inherent in 2022/23 budgets, as well as projections for 2023/24. This was designed to use, and complement, the results of the inflation survey, specifically in terms of day-to-day spending on services.

The intention of this research is to inform the work of SCT and CCN, ahead of the Chancellor's Medium-term Fiscal Plan announcement, the 2023/24 local government finance settlement and other related matters.

This report sets out LG Futures' findings arising from the research across three different areas;

- Analysis of the returns from the revised SCT/CCN member survey on inflation pressures facing revenue service budgets in 2022/23 and 2023/24.
- Desktop modelling of demand pressures facing revenue service budgets of SCT/CCN members in 2022/23 and 2023/24; and
- Analysis of the returns for the revised SCT/CCN member survey on inflation pressures facing capital budgets in 2022/23 and 2023/24.

The report concludes by providing commentary from LG Futures and CCN on the implications of the results ahead of the government's announcement of its Medium Term-Fiscal Plan.

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Inflationary Drivers

The survey asked SCT members about the impact of inflation, as budgeted in 2022/23, experienced today, and expected for 2023/24. This included the impact on revenue budgets of inflation relating to pay, energy, other running costs, as well as service income, all excluding demand pressures.

Table 1 shows the breakdown of inflation across the different drivers of cost. It shows that in 2022/23 estimated pay has doubled since SCT/CCN councils first set their budgets in March 2022, while the cost of energy has almost tripled. While running costs - which relates to anything a council purchases, from private contractors, to utility bills, to IT infrastructure - has grown at a slower pace, Graphs 1 and 2 show this rise has the most financial impact on council budgets.

In 2022/23, running costs constitute 69% of all inflationary costs, followed by pay at 24% and energy at 7%. In 2023/24, with pay rewards expected to fall, alongside energy costs, running costs share of inflationary costs rises further to 76%.

Graph 3 shows the breakdown of inflationary costs across different services. Higher running costs is the overwhelming driver of cost across most services, however there is some variation across services where pay in particular is higher, while energy as expected is the driver of cost for street lighting.

Table 1 - SCT/CCN/LG Futures Survey - Average inflation estimate for SCT/CCN members by inflationary driver (all services)

Inflation Driver	Budgeted Inflation 2022/23	Revised Inflation 2022/23	Estimated Inflation 2023/24
Pay	2.98%	6.07%	4.61%
Energy	18.64%	55.71%	37.41%
Other running costs	3.32%	4.86%	5.52%
Sales, fees & charges	2.18%	2.22%	2.27%
Other service income	1.05%	1.10%	1.87%
Total	4.13%	7.10%	7.05%

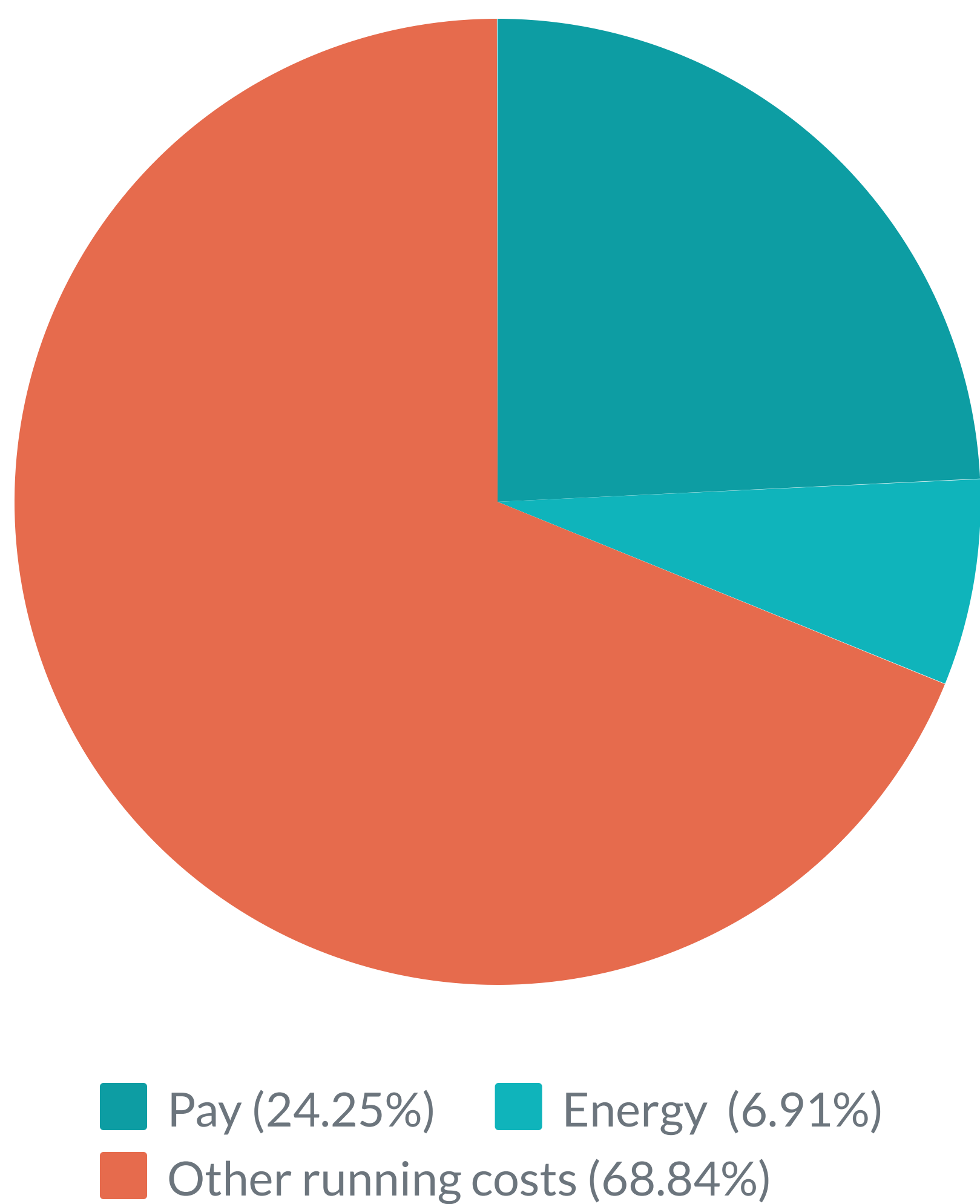
Survey Methodology

CCN and SCT, with input from LG Futures, issued a survey to 40 county and unitary member councils they jointly represent, asking them to provide estimates of inflation pressures that were built into 2022/23 budgets when they were set, as well as estimates of inflation facing services today. The survey also asked councils to provide estimates for inflation across the same service lines in 2023/24. The survey explicitly asked for demand pressures not to be included. LG Futures analysed the data from the returns.

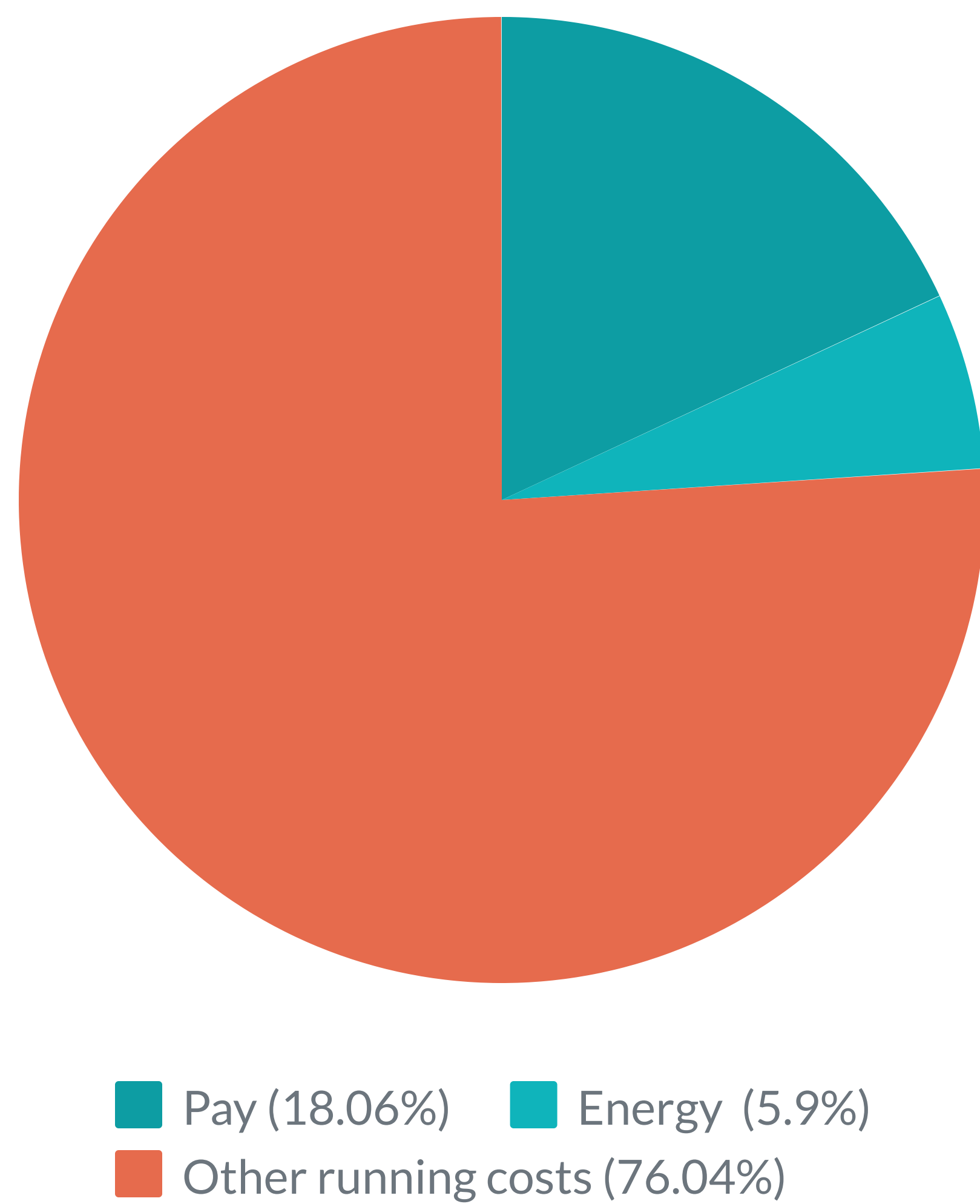
The survey asked councils to take budget data reported to Government through the 2022/23 Revenue Account returns as a starting point wherever possible, segmented by service blocks (eg adult social care, children's social care and others), as well as split into elements of net spending (direct pay, direct energy costs, other running costs, income from sales, fees and charges and other service income).

Overall, of 40 member councils, 28 returns were received in the format requested by the survey, of which 21 were deemed to be the most complete and the closest reconciled to the 2022/23 Revenue Account data. These returns were used as the main sample which was then upscaled, service-by-service, by comparing the 2022/23 baselines reported through the sample with the total 2022/23 service spending data for the membership reported through the Revenue Account process. While the scaling factor was different by service, the sample accounted for approximately between 50-60% of most service spending lines.

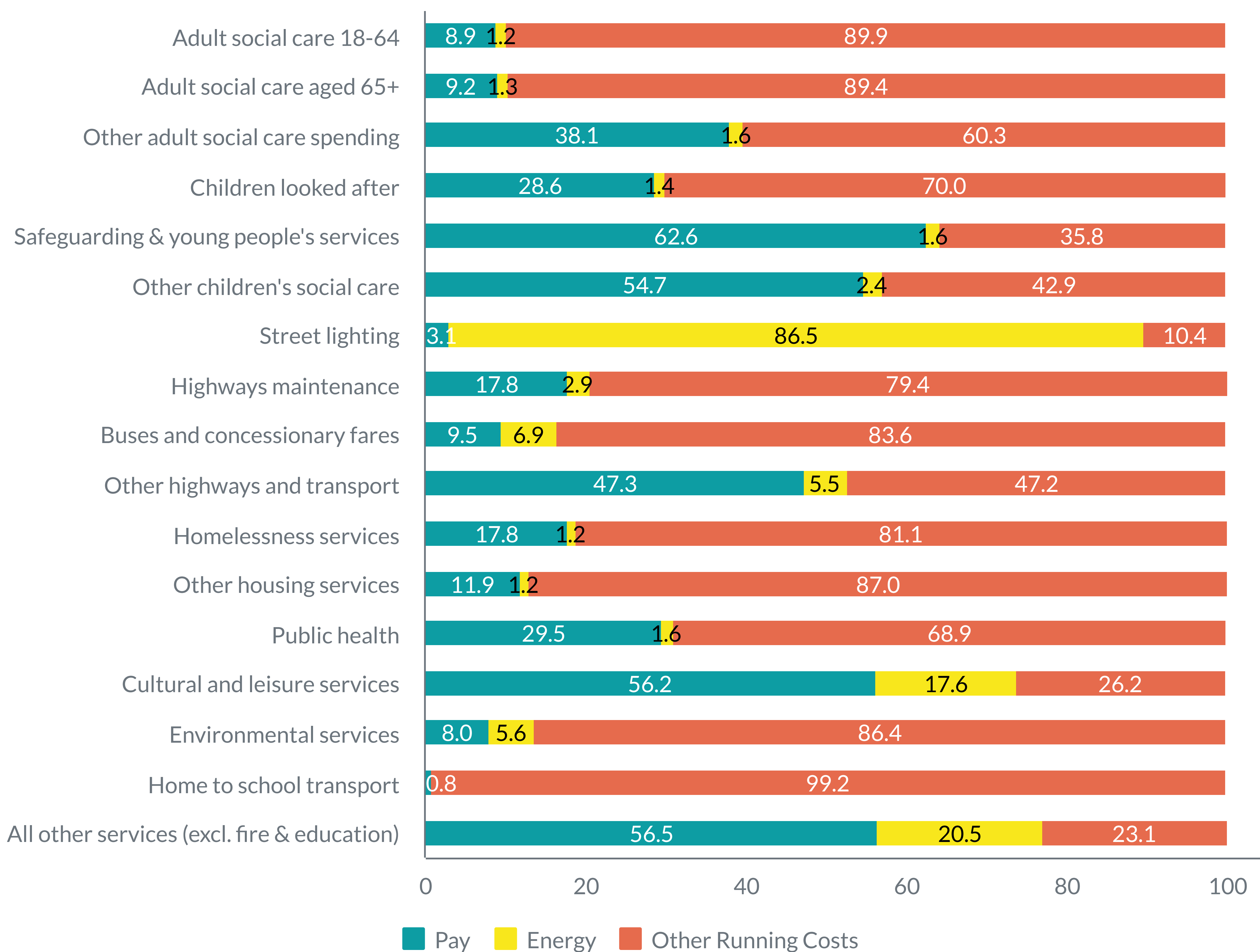
Graph 1 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2022/23 by inflation driver, all services (excludes income)



Graph 2 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2023/24 by inflation driver, all services (excludes income)



Graph 3 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2022/23 by inflation driver (excludes income) express as a percentage



Inflation 2022/23

The results of the analysis show that total inflation-linked pressures on 2022/23 revenue spending amount to £1.41bn, with £591m of this unbudgeted for in SCT/CCN councils. These totals are higher than estimated in the June 2022 survey of £1.1bn and £435m.⁶

At service level, Table 3 shows that adult social care accounts 47% of total inflationary costs (£659m) followed by children's services at 18% (£246m). Highways and transport, including maintenance, street lighting, bus and concessionary fares, accounts for 11% (£158m).

Graph 5 show the percentage of the inflationary cost as a percentage of service budget, before inflation. Overall, total inflationary costs represents 7% of total budgets before inflation. While adult social care contributes the most additional inflation pressure in 2022/23, the fastest cost growth is experienced by more energy-reliant services, with a comparatively smaller net budget; in particular, street lighting.

Table 2 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2022/23 by inflation driver, all services (£000s)

Inflation Driver	Budgeted Inflation	Additional Inflation	Total Inflation
Pay	183,810	188,361	372,171
Energy	36,531	69,464	105,995
Other running costs	718,860	337,552	1,056,412
Sales, fees & charges	(68,290)	(1,473)	(69,763)
Other service income	(51,610)	(2,679)	(54,289)
Total	819,302	591,226	£1,410,526

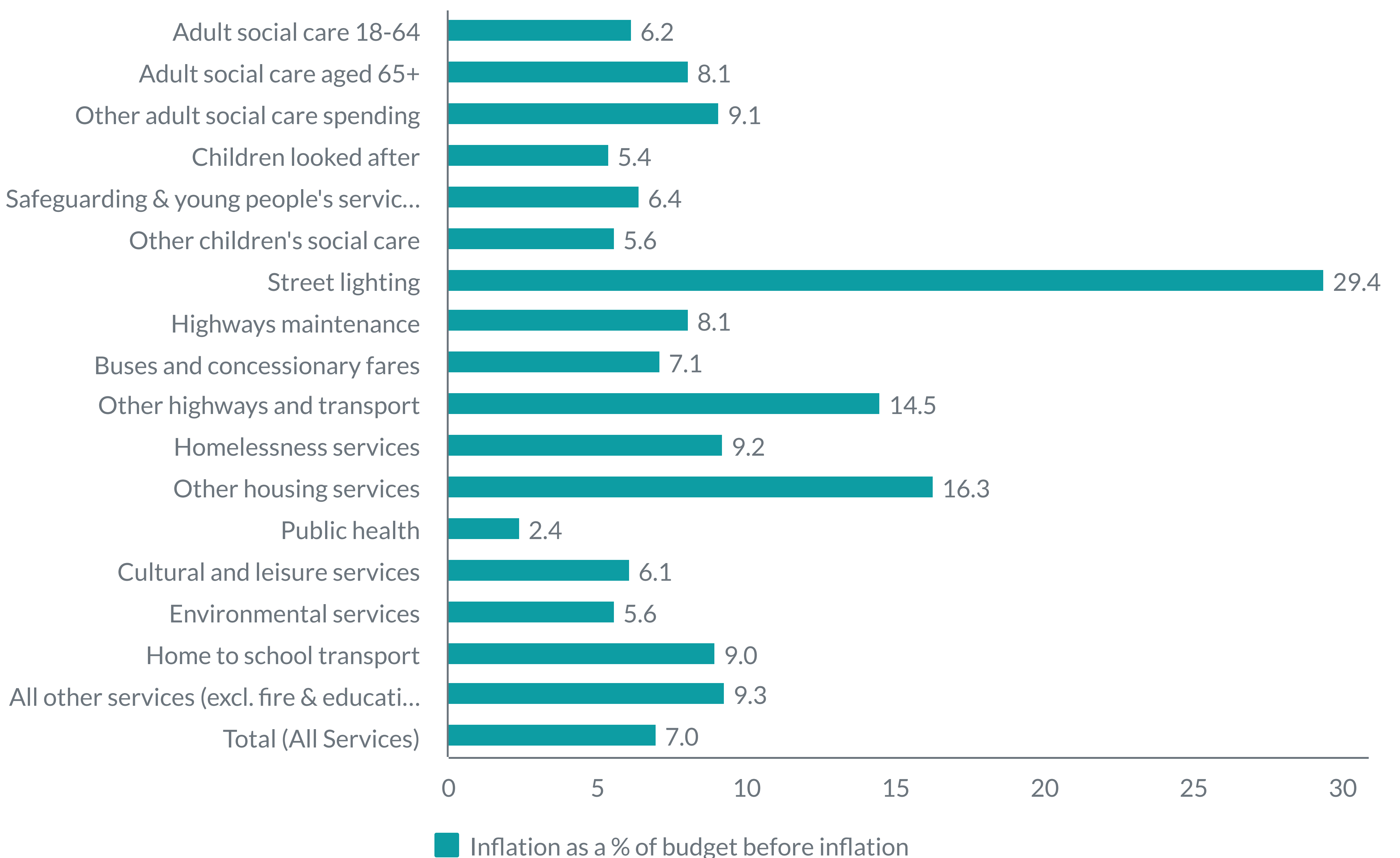
Table 3 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2022/23 by service (£000s)

Service Category	Budgeted Pressure	New Pressure	Total Inflation
Adult social care 18-64	169,794	64,911	234,705
Adult social care aged 65+	182,321	85,037	267,357
Other adult social care spending	87,921	69,217	157,139
Children looked after	72,943	49,323	122,266
Safeguarding & young people's services	27,756	35,129	62,885
Other children's social care	33,358	28,337	61,695
Street lighting	19,292	35,511	54,803
Highways maintenance	22,695	28,264	50,959
Buses and concessionary fares	19,054	13,903	32,957
Other highways and transport	6,302	12,671	18,973
Homelessness services	1,287	3,300	4,587
Other housing services	12,511	6,914	19,426
Public health	15,288	17,047	32,336
Cultural and leisure services	14,982	14,149	29,131
Environmental services	49,791	39,862	89,653
Home to school transport	27,487	31,856	59,344
All other services (excl. fire & education)	56,518	55,794	112,312
Total (all services)	819,302	591,226	1,410,526

Graph 4 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2022/23 by service (£000s)



Graph 5 - SCT/CCN/LG Futures Survey - Total revenue budget inflation in 2022/23 by service as a % of budget before inflation



Inflation 2023/24

The results of the analysis show that total inflation-linked pressures in 2023/24 on revenue spending is estimated to rise slightly next year to £1.45bn in SCT/CCN councils.

At service level, Table 5 shows that adult social care accounts for 46% of total inflationary costs (£670m) followed by children's services at 17% (£245m). Highways and transport, including maintenance, street lighting, bus and concessionary fares, accounts for 12% (£177m).

Graph 6 shows total inflationary pressures in 2022/23 compared to 2023/24 by service area. It shows some spending lines in adult social care are expected to see higher inflationary costs next year, alongside looked after children and environmental services. This is the driver of higher totally inflationary costs in 2023/24.

Graphs 7 show the percentage of the inflationary cost as a percentage of service budget, before inflation. Overall, total inflationary costs represents 7% of total budgets before inflation. It shows that in percentage terms, street lighting is estimated to see the largest increase, albeit smaller than the year before.

Comparative Desktop modelling

The survey conclusions for inflation and revenue budgets in 2022/23 and 2023/24 were compared to results of separate, desktop-based modelling, which was independent of the survey. The aim was not to come to the same result, but to gauge the level of difference between the two approaches and sense check the robustness of the survey. The survey is considered to be the definitive data source, given that top-down assumptions cannot reflect local nuance, such as commissioning cycles and purchasing times.

The modelled estimates for inflation pressures are not too dissimilar in aggregate, especially when controlling for different starting baselines for the model and survey data. The desktop model delivers estimates of additional unbudgeted 2022/23 inflation of £760m (compared to £591m) and 2023/24 inflation of £1.49bn (compared to £1.44bn).

However, the survey and desktop modelling approaches resulted in significant variances in terms of the impact on service cost elements (pay, energy, running costs, sales, fees & charges and other service income), with the desktop analysis assumptions projecting higher increases in almost all categories (thus balancing higher projected gross costs against higher projected income). This likely arises from less local nuance afforded in desktop models of complex issues.

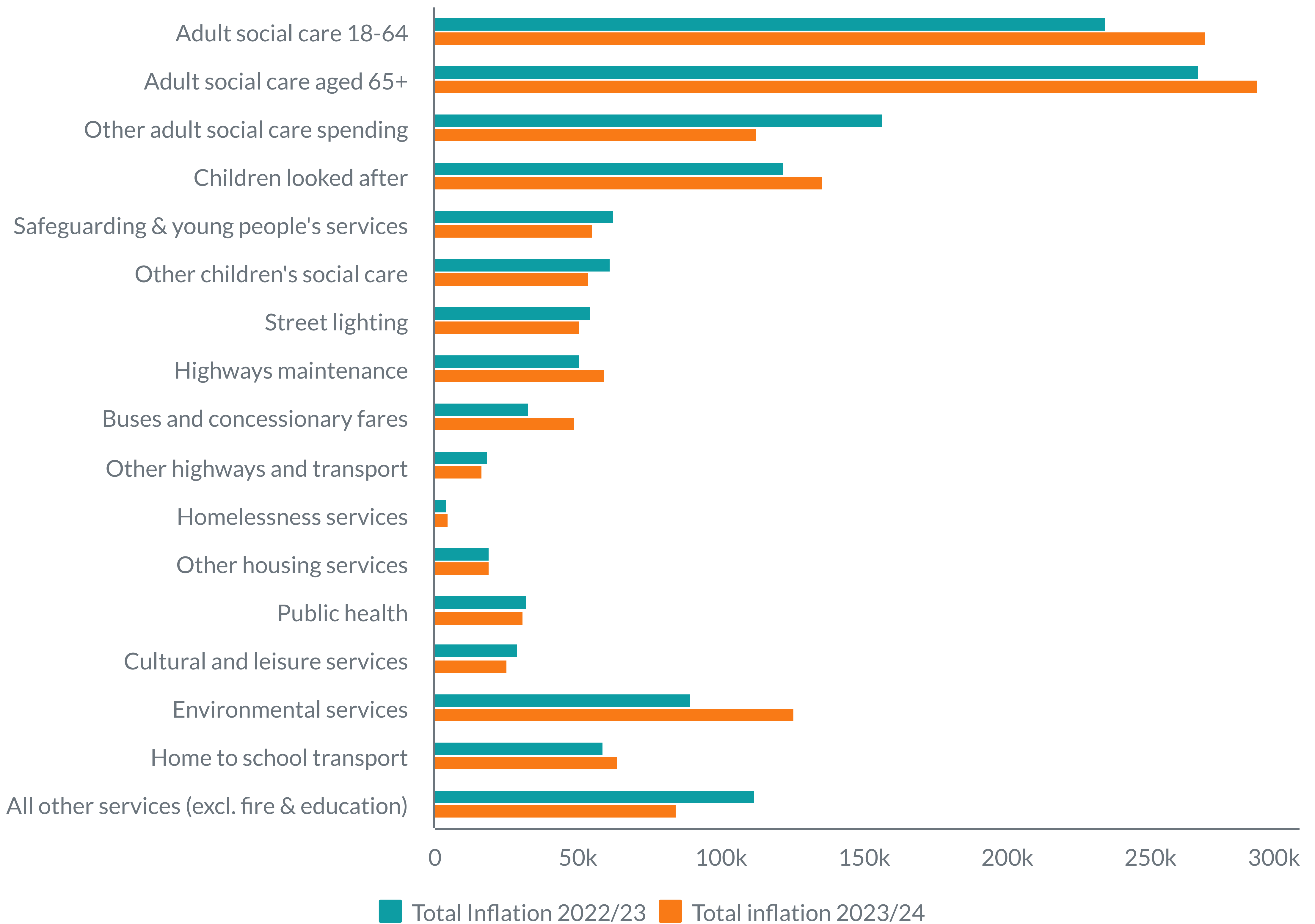
Table 4 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2023/24 by inflation driver, all services (£000s)

Inflation Driver	Estimated Inflation
Pay	291,187
Energy	95,164
Other running costs	1,224,936
Sales, fees & charges	(71,719)
Other service income	(91,025)
Total	1,448,543

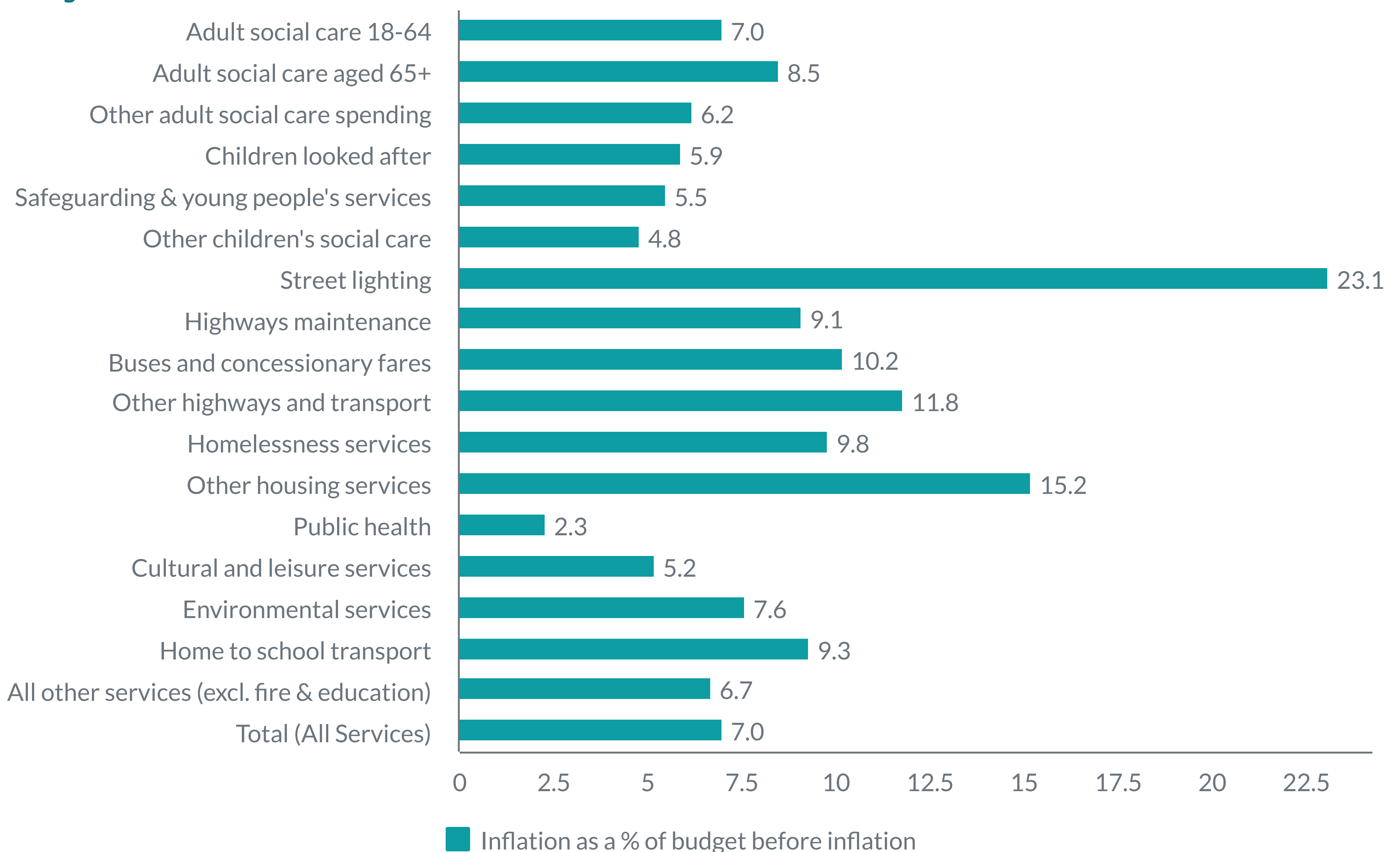
Table 5 - SCT/CCN/LG Futures Survey - Revenue budget inflation in 2023/24 by service (£000s)

Service Category	Budgeted Pressure
Adult social care 18-64	269,974
Adult social care aged 65+	287,683
Other adult social care spending	112,627
Children looked after	135,959
Safeguarding & young people's services	55,255
Other children's social care	54,076
Street lighting	51,201
Highways maintenance	59,905
Buses and concessionary fares	48,998
Other highways and transport	16,930
Homelessness services	5,225
Other housing services	19,231
Public health	31,430
Cultural and leisure services	25,520
Environmental services	125,782
Home to school transport	63,910
All other services (excl. fire & education)	84,837
Total (all services)	1,448,543

Graph 6 - SCT/CCN/LG Futures Survey - Total revenue budget inflation in 2022/23 and 2023/24 by service (£000s)



Graph 7 - SCT/CCN/LG Futures Survey - Total revenue budget inflation in 2023/24 by service as a % of budget before inflation



LG Futures also undertook further desktop modelling to estimate demand pressures inherent in 2022/23 budgets, as well as projections for 2023/24. This analysis was performed using the upscaled results of the inflation survey. Proxy factors for demand (for example, trend growth in looked after children for children's social care), were overlaid on spending figures from the survey. For 2023/24, the baseline was 2022/23 budget data, including both budgeted and additional inflation, as this is the cost base on which 2023/24 will build. This analysis was performed for all service blocks that were used in the inflation survey.

All elements of net spending (pay, energy, running costs, sales, fees & charges and other service income) were updated by the same demand factor. The analysis did not estimate any changes to demand in 2022/23 subsequent to budget setting and should be looked at as a 'minimum' estimate. Appendix 1 provides details of the data used for proxy for demand across the different service areas.

The results of the analysis show that demand is set to add £317m to SCT/CCN budgets in 2022/23 and a further £330m in 2023/24.

As expected adult social care accounts for the single largest element, some 60% of all demand costs over the two years. This higher than the share of inflationary costs for these services.

These estimates are significantly lower than the inflation-linked pressures recorded in the survey. There are two reasons for this;

- In general, demand-related assumptions are lower than inflation assumptions due to the current economic environment. There isn't yet statistically available evidence about whether and how the increased cost of living will change demand in services, and usual national indicators are lagging behind inflation in the interim period.
- Secondly, the design of the demand model uplifts both costs and service income with the same drivers, while in the inflation survey barely any increases in income were reported. This would lead to a lower net cost impact of demand than inflation, even if all other assumptions were the same.

Table 6 - LG Futures Desktop Modelling - Revenue demand pressures based on scaled inflation survey results (£000s)

Service Category	2022/23 Demand	2023/24 Demand
Adult social care 18-64	64,423	66,645
Adult social care aged 65+	111,755	118,672
Other adult social care spending	10,910	11,159
Children looked after	56,316	59,022
Safeguarding & young people's services	24,421	25,946
Other children's social care	4,551	3,688
Street lighting	233	278
Highways maintenance	783	819
Buses and concessionary fares	8,513	8,938
Other highways and transport	768	805
Homelessness services	410	423
Other housing services	700	707
Public health	7,793	7,541
Cultural and leisure services	2,804	2,758
Environmental services	13,146	13,036
Home to school transport	2,731	2,262
All other services (excl. fire & education)	7,080	7,077
Total (all services)	317,335	329,779

Total Revenue Cost Pressures

The analysis on inflation and demand pressures is now brought together to show the combined impact on budgets this year and next.

Overall SCT/CCN councils face a total cost pressure of £1.73bn in 2022/23, rising to £1.78bn in 2023/24. This is a combined revenue cost pressure of £3.5bn over this year and next.

The level of additional inflationary and demand costs are more than double that of previous estimates by PwC for CCN, which estimated costs would rise £1.5bn over the same two-year period due to a combination of service demand and inflation.⁷

Table 7 below shows that adult social care, again, represents the single biggest cost pressure; some 49% of all costs (£1.7bn). This is followed by children's social care, representing 20% (£667m) and highways and transport at 10% (£355m).

Graph 9 - SCT/CCN/LG Futures inflation survey and LG Futures demand Modelling (£000s)

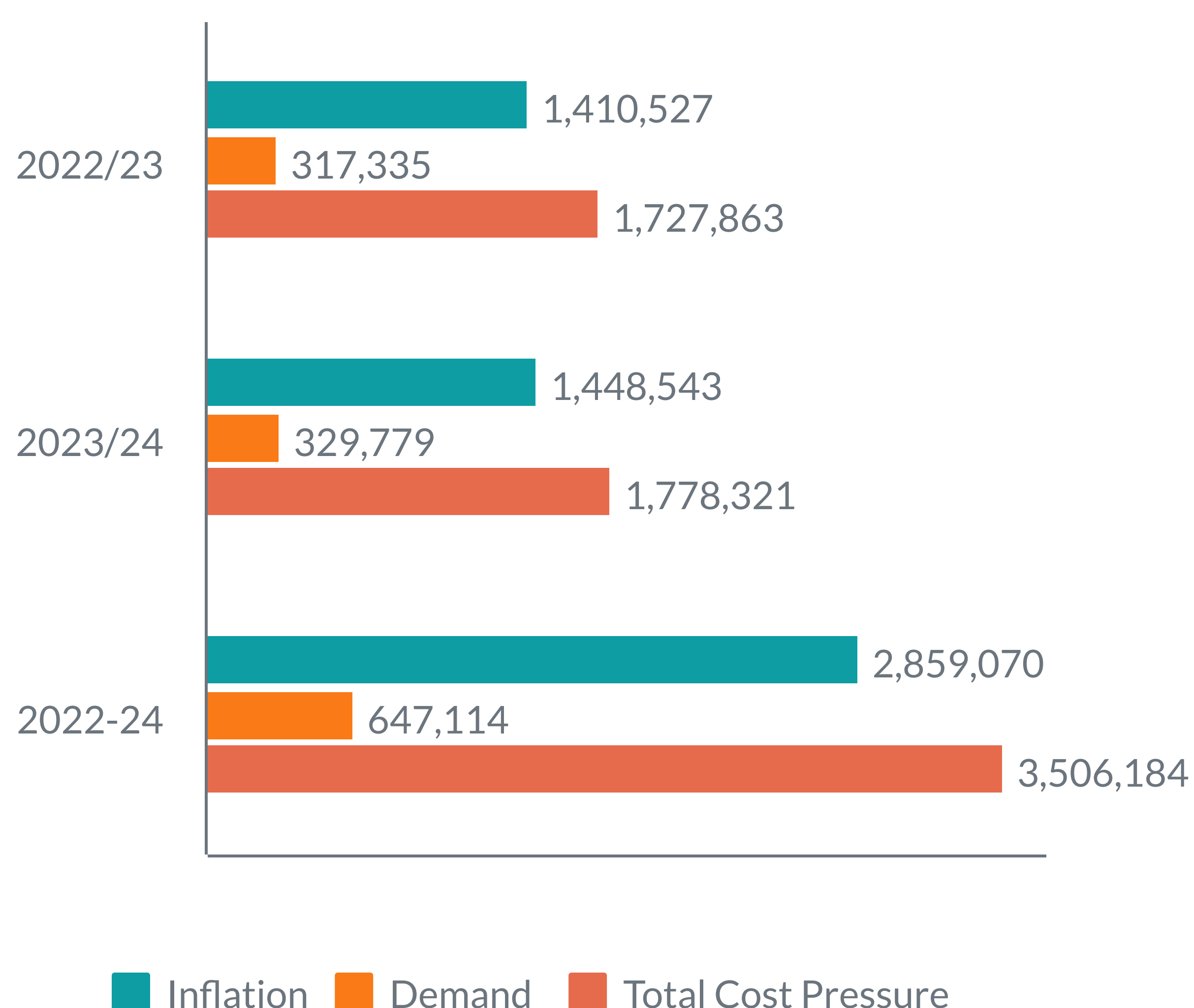


Table 7 - SCT/CCN/LG Futures inflation survey and LG Futures demand Modelling (£000s)

Service Category	Total Cost Pressure 2022/23	Total Cost Pressure 2023/24	Total Cost Pressure 2022-24
Adult social care 18-64	299,128	336,619	635,747
Adult social care aged 65+	379,112	406,355	785,468
Other adult social care spending	168,049	123,786	291,835
Children looked after	178,582	194,981	373,563
Safeguarding & young people's services	87,305	81,202	168,507
Other children's social care	66,246	57,764	124,010
Street lighting	55,036	51,479	106,514
Highways maintenance	51,742	60,724	112,466
Buses and concessionary fares	41,470	57,936	99,406
Other highways and transport	19,741	17,735	37,476
Homelessness services	4,997	5,648	10,645
Other housing services	20,125	19,938	40,063
Public health	40,128	38,972	79,100
Cultural and leisure services	31,935	28,279	60,214
Environmental services	102,800	138,818	241,618
Home to school transport	62,075	66,172	128,247
All other services (excl. fire & education)	119,392	91,914	211,306
Total (all services)	1,727,863	1,778,321	3,506,184

As part of the inflation survey, councils were asked to provide estimates of additional (not previously budgeted) pressures on their capital programmes in 2022/23, as well as an early estimate of pressures on capital budgets in 2023/24. This was split into expenditure on roads, schools and other programmes.

Recognising that capital expenditure is potentially easier to control through delay or cancellation of projects, respondents were asked to provide figures for pressures regardless of whether there was a plan to scale back proposals. This was intended to demonstrate the scale of the impact on programmes.

For 2023/24, a number of councils responded with a return of £0 pressures and a comment that it was too early to estimate. So the 2023/24 figures in particular should be treated as a snapshot and the likely 'low case'. As most councils entered 2022/23 capital budget baseline data, it is possible to upscale to a full SCT membership estimate and these figures are provided in the following tables.

However, this requires assuming that the 13 councils which provided no figures for capital spending pressures in 2022/23 in various spending categories (and even more councils with no figure for pressures in 2023/24), actually do not have pressures (as opposed to misreporting, or it being too early to gauge pressures properly). Therefore, upscaled figures need to be treated with care and caution.

The results of the analysis shows that indicated additional pressures of £472m in 2022/23, if upscaled to full SCT membership on a population basis. Early estimates from respondents for 2023/24 suggest pressures £234m if upscaled to full SCT membership on a population basis, but many respondents have said that it is too early to estimate pressures for next year.

Graph 10 - SCT/CCN/LG Futures Survey - Capital budget inflation by category (£000s)

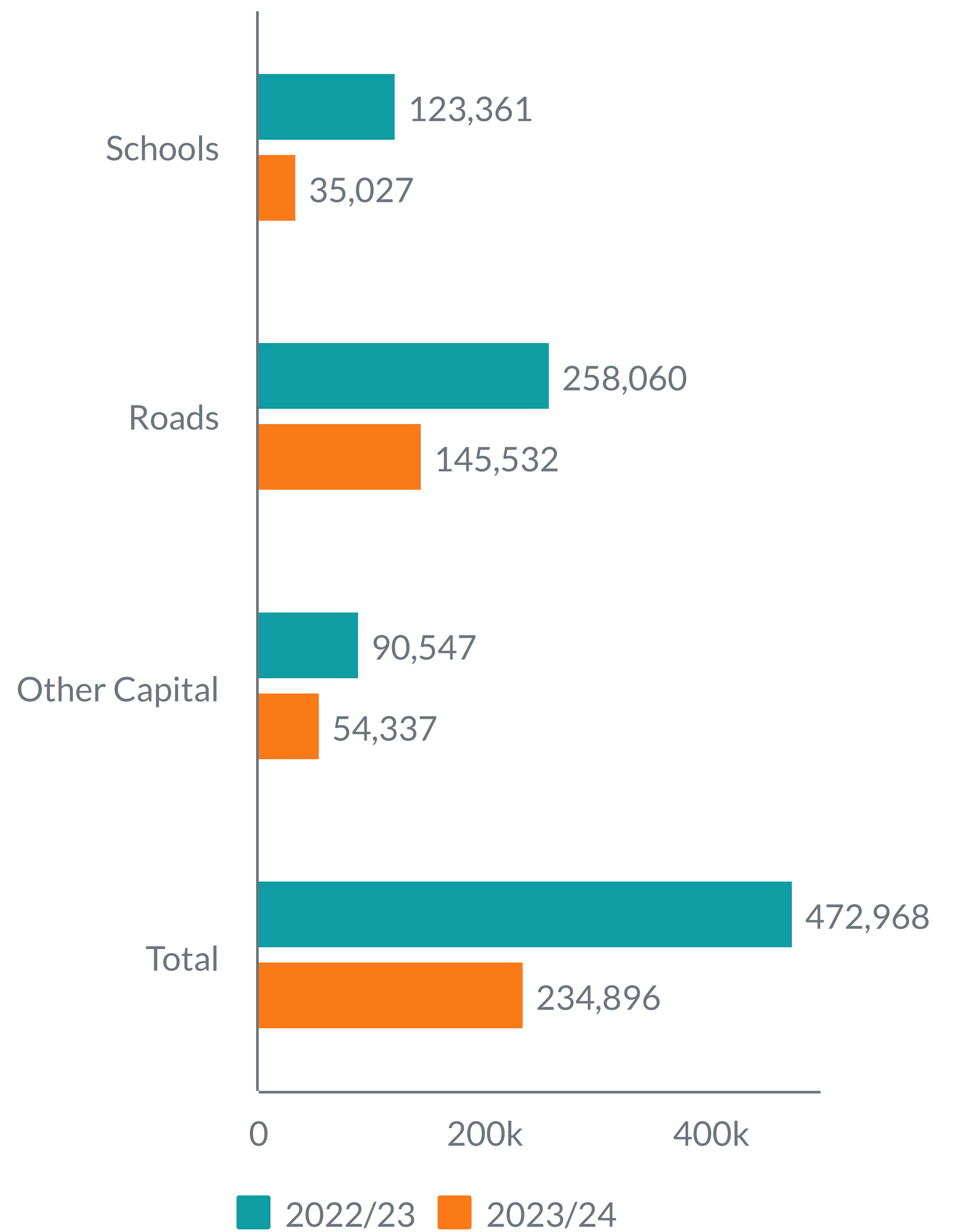


Table 8 - SCT/CCN/LG Futures Survey - Capital budget inflation by category, upscaled (£000s)

Inflation Driver	2022/23 Additional Pressure	2022/23 Additional Pressure	Scaling Basis
Schools	123,361	35,027	Population aged 0-17, 2020 mid-year ONS estimates
Roads	258,060	144,532	Total population, 2020 mid-year ONS estimates
Other Capital	90,547	54,337	Total population, 2020 mid-year ONS estimates
Total	471,968	233,896	n/a

Local government has been significantly affected by inflation pressures, both at the time of setting their 2022/23 budgets, and through subsequent developments, that have required a thorough review of financial planning. This pressure is widely expected to continue into future years and comes alongside usual tendencies of increasing demand.

It is not surprising to see adult and children's social care among the largest drivers of additional pressures, as the biggest and among the most demand-driven services. While energy cost increases are the sharpest, councils spend significantly more on pay and other running expenses.

At the time of writing, the government has not announced any additional funding for councils in 2023/24, other than council tax flexibilities signalled at the time of the 2021 Spending Review. There is also a likely increase in councils' business rate baselines, normally worth the equivalent of September RPI inflation, with the government historically compensating councils for the difference between RPI and whatever the actual increase in the business rates multiplier is.

For SCT/CCN member authorities, a 'cash flat' settlement rollover settlement, 3% increase in council tax, coupled with 1.8% council tax base growth (same as 2022/23), plus a fully compensated 12.6% increase in the business rates baseline (September RPI), would deliver an increase in Core Spending Power of £957m in 2023/24.

As Table 9 shows, this leads to a funding gap of £821m - or 3.7% - for SCT/CCN member councils in 2023/24 without additional funding from government

It is important to recognise this would be on top of £591m of additional, unfunded, inflationary pressures from 2022/23, which do not receive funding from government (or dealt with by councils) in a permanent fashion. At the time of writing, a separate SCT survey of councils has shown that some two thirds of councils are projecting that as a result of inflation they will now overspend their budget, requiring councils to make emergency in-year savings or use significant levels of depleted reserves to balance budgets this year.

The SCT/CCN member survey shows that capital programmes are also under pressure too. While technically it is easier to manage capital costs through slipping or cancelling projects to fit the available funding envelope (and a number of responses said this would be the mitigation measure), it comes at a future cost.

At the time of writing this report, the government is preparing the Medium-term Fiscal Plan, which will potentially reopen the Spending Review 2021 settlements and lay a path for further fiscal tightening in the medium term. If local government is affected by these decisions, they will compound the challenging situation councils already face.

Graph 11 - LG Futures CSP analysis 2023/24 (£000s)

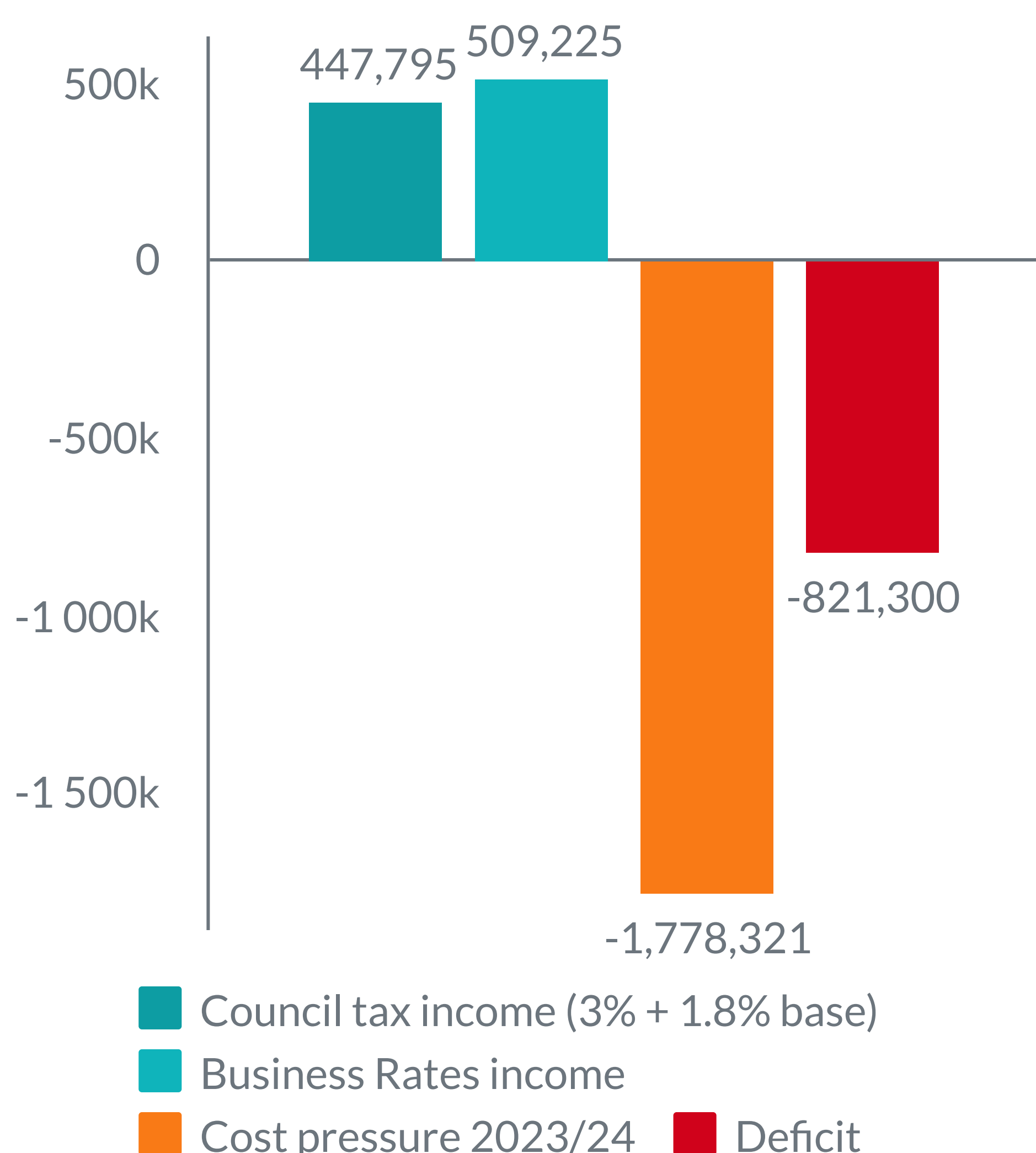


Table 9 - LG Futures CSP analysis 2023/24 (£000s)

Inflation and demand pressures compared to Core Spending Power increase potential 2023/24	Total SCT/CCN
Extra council tax income if budgeted 2022/23 taxbase growth is repeated in 2023/24 and council tax is increased by 3%	447,795
Potential increase in the business rates baseline (based on September RPI)	509,225
Total potential increase in core spending power, 2023/24 (excluding ASC reform)	957,020
Total inflation and demand pressure on revenue budgets in 2023/24 from survey	1,778,321
Deficit (real terms cut)	(821,300)

1. CCN Press Release. Councils call for delay to flagship social care reforms, warning services face a 'perfect storm' of financial and workforce pressures over the next 12 months (October 2022) <https://www.countycouncilsnetwork.org.uk/councils-call-for-delay-to-flagship-social-care-reforms-warning-services-face-a-perfect-storm-of-financial-and-workforce-pressures-over-the-next-12-months/>
2. CCN Press Release. Councils call on Prime Minister to deliver on her promise to provide more funding for social care (September 2022) <https://www.countycouncilsnetwork.org.uk/councils-call-on-prime-minister-to-deliver-on-her-promise-to-provide-more-funding-for-social-care/>
3. CCN Press release; Cost of living crisis: councils face winter of 'difficult decisions' as spiralling inflation adds £1.5bn to costs <https://www.countycouncilsnetwork.org.uk/cost-of-living-crisis-councils-face-winter-of-difficult-decisions-as-spiralling-inflation-adds-1-5bn-to-costs/>
4. ONS. Consumer price inflation, UK: September 2022 <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/september2022>
5. MH Treasury. Chancellor brings forward further Medium-Term Fiscal Plan measures <https://www.gov.uk/government/news/chancellor-brings-forward-further-medium-term-fiscal-plan-measures>
6. CCN Press release; Cost of living crisis: councils face winter of 'difficult decisions' as spiralling inflation adds £1.5bn to costs <https://www.countycouncilsnetwork.org.uk/cost-of-living-crisis-councils-face-winter-of-difficult-decisions-as-spiralling-inflation-adds-1-5bn-to-costs/>
7. PwC - Independent Review of Local Government Spending Need and Funding (Technical Report) (2019), p.16 <http://www.countycouncilsnetwork.org.uk/download/2262/>

Demand projections (revenue budgets) - methodology

Service block	Basis of demand proxy
Adult social care – 18-64	Personal Social Services' Research Unit work on long term trends in adult social care demand
Adult social care – 65+	Personal Social Services' Research Unit work on long term trends in adult social care demand
Adult social care - other	ONS 2018 population projections for people aged 18+
Children's social care: looked after children and safeguarding	Trend analysis of changes in the number of looked after children between 2013 and 2021. For safeguarding, similar trend analysis of children subject to a child protection plan was considered, but not used due to data quality concerns.
Children's social care: other	ONS 2018 population projections for people aged 0-17
Street lighting and highways maintenance	Trend growth in locally maintained road, 2013 - 2021
Buses and concessionary fares	ONS 2018 population projections for people aged 65+
Other highways and transport	ONS 2018 population projections for people of all ages
Homelessness	ONS 2018 projections for households. Trend analysis of the number of households owed a duty under the Homelessness Reduction Act was considered, but data is distorted by COVID-19 and the Everyone In initiative.
Housing (general fund) services, public health, cultural and leisure services	ONS 2018 population projections for people of all ages
Environmental services	ONS 2018 projections for households
Home to school transport	ONS 2018 population projections for people aged 0-17
All other services, excluding education and fire	ONS 2018 population projections for people of all ages



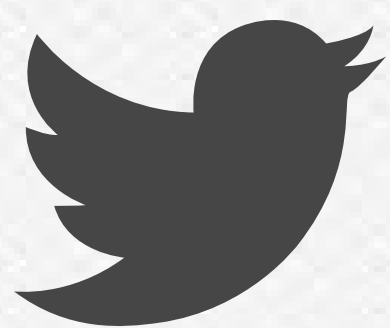
COUNTY COUNCILS NETWORK

Founded in 1997, the County Councils Network is the voice of England's counties. A cross-party organisation, CCN develops policy, commissions research, and presents evidence-based solutions nationally on behalf of the largest grouping of local authorities in England.

In total, the 23 county councils and 13 unitary councils that make up the CCN represent 26 million residents, account for 39% of England's GVA, and deliver high-quality services that matter the most to local communities

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