

CABINET

17 NOVEMBER 2022

Budget 2023-24 and Medium-Term Financial Plan 2023-2027

Report of Jan Willis, Interim Executive Director of Finance and Section 151 Officer

Cabinet Member: Richard Wearmouth, Portfolio Holder for Corporate Services and Deputy Leader

Purpose of report

This report provides an update on the development of the 2023-24 Budget and the Medium-Term Financial Plan (MTFP) covering the period 2023 to 2027.

Recommendations

Members are requested to:

- 1. Review and note the revisions to the assumptions (and the risks) within the 2023-24 Budget and Medium-Term Financial Plan.**
- 2. Note that:**
 - a) further work is required to refine the Medium-Term Financial Plan; and,**
 - b) the revenue implications of the capital programme are still to be updated; and,**
 - c) there are still budget balancing measures required to be identified over the term of the Medium-Term Financial Plan.**
- 3. Review and note the budget consultation strategy.**

Link to Corporate Plan

The Council's budget and Medium-Term Financial Plan are aligned to the priorities outlined in the Corporate Plan 2021-24 "A Council that Works for Everyone".

Key issues

1. Local government is operating in a period of significant financial uncertainty brought about by ongoing significant budget pressures (including social care, special educational needs, and disability services), as well as other unfunded pressures arising from demographic and significant pay and price inflation as well as rising interest rates. The financial outlook for the Council will continue to be extremely challenging for the foreseeable future.
2. There continues to be significant uncertainty in terms of the financial settlement for local government and how the available funding will be distributed between local authorities through the funding formula.
3. The Government published a Comprehensive Spending Review (CSR) October 2021, covering the three-year period 2022 to 2025. CSR 21 determined the overall amount the Government intended to spend on departments and public services. The Government announced that it would be providing a multi-year settlement and an average real terms increase of 3.00% a year in core spending power for local government. The implications of this for each local authority was announced in December as part of the Local Government Provisional Finance Settlement. However, the settlement was only a 1-year settlement and the Government's finances are under severe pressure which could in turn have implications for local government and therefore local authorities.
4. It was previously expected that the outcome of the Fair Funding Review (FFR), including the move to 75.00% Business Rate Retention, would have been implemented during 2021-22. However, this was delayed due to the impact of the coronavirus pandemic. Plans to move to 75.00% Business Rates Retention have since been abandoned, with the Government instead exploring a new mechanism to redistribute business rates income. Therefore, the outcome of the FFR and review of Business Rates has been delayed, with no indication of when they will take place. This adds further uncertainty and complexity to medium term financial planning.
5. The lack of clarity in relation to the CSR and FFR is exacerbated by uncertainties in relation to future funding of the Improved Better Care Fund, short term funding provided to local authorities for adult and children social care pressures, and the upcoming white paper on social care funding which was announced by the Prime Minister in his statement to the House of Commons in September 2021. This level of uncertainty has made financial planning extremely difficult and requires the Council to be flexible and adaptable as it considers setting the 2023-24 Budget and the Medium-Term Financial Plan. Robust financial planning arrangements within the Council will ensure that the Council is well placed to react effectively to any outcome. However, planning with this level of uncertainty is not conducive to effective long-term decision making.

6. CSR 21 advised that the council tax referendum limit would be set at 2.00% for the three years 2022-23 to 2024-25. It also advised that councils could increase the precept in relation to Adult Social Care at a rate of 1.00% per annum over those three years. However, as a result of the recent financial crisis and the increased costs being experienced it is possible that the referendum limit will be increased. If the referendum limit is increased the Government will allocate its funding to local authorities based on the assumption that they will be increasing council tax up to the referendum limit. Based on the estimated council tax base a 1.00% increase in council tax will generate income in the region of £1.840 million for the Council.
7. To ensure the MTFP can be developed effectively, and savings targets delivered in time to produce a balanced budget, it is important that a robust plan and timetable is agreed and followed.
8. The current MTFP forecast, that the Council agreed on 23 February 2022, covered the four-year period 2022-23 to 2025-26. It is recommended at this stage that the MTFP covers the four-year period 2023-24 to 2026-27 and this will be presented to full Council on 22 February 2023. Planning across the medium term in this way ensures that decisions can be made in the knowledge of the likely financial position of the Council and provides a basis for effective decision making whilst taking account of the best estimates of income and expenditure.
9. Details of the local government financial settlement are expected to be announced by Government in late December 2022. It is hoped that the settlement will cover more than one financial year, but at this stage that detail is not known. Work will continue on the MTFP to incorporate the outcome of the financial settlement, and this will be presented to full Council on 22 February 2023.
10. In line with previous practice the Budget for the next financial year (2023-24) and the MTFP model has been reviewed. Using a variety of assumptions for inflationary increases relating to Revenue Support Grant, New Homes Bonus, Services Grant as well as different assumptions for the tax base and pay inflation, three models have been produced; best case, worst case and mid-case scenarios resulting in savings requirements as follows:

| | 2023-24 | 2024-25 | 2025-26 | 2026-27 | Total |
|-------|---------|---------|---------|---------|--------|
| | £m | £m | £m | £m | £m |
| Best | 19.888 | 19.130 | 7.249 | 10.700 | 56.967 |
| Mid | 22.790 | 18.668 | 9.238 | 13.802 | 64.498 |
| Worst | 37.214 | 25.965 | 14.245 | 20.727 | 98.151 |

For the purpose of this report the assumptions outlined relate to the mid-case scenario. This will continue to be reviewed as the MTFP is updated, and early identification and planning for savings required in the later years of the MTFP will be critical.

11. Savings proposals have been and will continue to be developed using the following principles:
- a) Setting a balanced budget over the life of the MTFP whilst maintaining modest and sustainable increases in Council Tax.
 - b) Investing to save; recognising that one-off resources can be used to generate future savings that will pay back the investment.
 - c) Ensuring that service and financial planning is fully aligned with the Corporate Plan.
 - d) Continuously reviewing services in order to keep reductions to front line services to a minimum.
 - e) Maintaining the Council's strong financial position so that it has sufficient reserves and balances to address any future risks and unforeseen events without jeopardising key services and delivery of outcomes.
 - f) Maintaining a commercial focus and maximising income generation while at the same time managing risk.
 - g) Ensuring the Council can demonstrate value for money in the delivery of its priorities.

Background

1. Medium-Term Financial Plan 2023-24 to 2026-27

- 1.1. The Medium-Term Financial Plan was presented to Council on 23 February 2022 when the budget was set for 2022-23. The report set out a number of assumptions and identified a gap of £50.436 million from 2022-23 to 2025-26.
- 1.2. The MTFP is currently being updated to cover the period 2023-24 to 2026-27. At this point in time and using the mid-case scenario and the assumptions detailed below, savings of £22.790 million will be required to balance the budget for 2023-24 and a further savings requirement of £41.708 million covering the period 2024-25 to 2026-27 has also been identified.
- 1.3. The plan will continue to be updated to reflect changing circumstances and a revised MTFP will be presented to the Cabinet as the budget process develops.

2. Review of the Medium-Term Financial Plan

- 2.1. The financial outlook for the Council continues to be extremely challenging. The national finances are in a highly uncertain position due to the aftermath of Covid-19, the impact of the UK exit from the European Union, the war in Ukraine, significant inflation, volatile financial markets and the cost-of-living crisis.
- 2.2. The assumptions for the 2023-24 Budget and MTFP are currently as follows:
 - a) **Revenue Support Grant (RSG)**
 - i) that the Council will receive a government settlement including an appropriate inflationary increase over the period of the MTFP (CPI at the end of September was 10.10% and this is the increase that has been assumed);
 - ii) that additional funding received for Adults and Children's Social Care in 2022-23 will become recurrent, and, that the cost of adult social care reforms (Fair Cost of Care and charging reform) will be fully funded by the Government;
 - iii) that there will be no increase or decrease in the Better Care Fund;
 - iv) that the council tax referendum level will be 2.00% over the MTFP period and that an increase to the Adult Social Care Precept of 1.00% will be applicable for the years 2023-24 and 2024-25. It is possible however that due to the current position of the Government's finances that the council tax referendum limit will be increased beyond 2.00%.

At this stage any of the assumptions made could be subject to change as a result of the CSR, and the publication of the provisional local government finance settlement, which is expected in December 2022.

b) **New Homes Bonus (NHB)**

There has currently been no announcement on the future of the New Homes Bonus Scheme or the level of funding available nationally. However, for financial planning purposes it has been assumed that the scheme will continue over the duration of the MTFP, but the overall national funding totals will reduce from £556.000 million in 2022-23 to £250.000 million in 2023-24. It is possible that the reduction in funding could be redistributed to support the levelling up agenda, amongst other Government initiatives.

It is forecast that £1.464 million will be received in each year. This allocation is based on the four-year average figure to 2019-20.

c) **Council Tax and Business Rate Tax Base Increases**

Regular reviews are carried out in relation to tax base forecasts. The tax base is impacted by new builds, the incidence of uptake of discounts and exemptions, with a further major variable being the impact of the local council tax reduction scheme. At this stage a slight increase in the tax base is forecast in each year as a result of growth from new developments over the lifetime of the MTFP period. The forecast for the tax base for 2023-24 will be closely monitored in the coming weeks in what is a very volatile area.

With regard to the council tax base the Council has assumed that losses on collection will be 1.00%. This was increased to 1.00% during the Covid-19 pandemic from 0.70% for the 2021-22 budget and remained at this level for financial year 2022-23.

d) **Pay Inflation**

The Real Living Wage (RLW) has been included for social care contract budgets across the MTFP period. An annual pay inflation allowance of 4.00% has also been included for pay costs in 2023-24 and 2.00% across the remaining MTFP period in relation to national pay negotiations. The final determination of these pay inflation factors will impact on the MTFP assumptions.

When the 2022-23 budget was set, inflation for all pay increases was included at 2.25%.

Pay negotiations for firefighters continue and the latest offer is 5.00%.

The pay increase for staff on local government terms and conditions is now estimated to be between 10.50% for those on spinal column point 1 and 1.20% for those on spinal column point 75 in the current financial year (2022-23) which equates to the employer's current offer of £1,925 for each grade (plus employer's oncosts). The overall average increase based on this offer equates to 7.28% for the Council.

All of the costs (actual and estimated) over and above 2.25% have been added as a recurrent pressure to the 2023-24 budget and MTFP.

e) **Non-Pay Inflation**

Significant increases in utility charges continue to be experienced nationally and this is applicable to local government and the Council too. Increases over and above “normal” inflationary increases will be funded from reserves for the first year of this MTFP. The MTFP assumes that inflationary increases for utilities return to “normal” levels after this time. However, this will need to be kept under review as there is currently no clarity about what will happen with energy costs in the medium term. It was hoped that the price energy guarantee would be for two years, but it has recently been announced that it is now only for 6 months. In addition, the Council has not yet received details about what the price energy guarantee will mean for it, therefore the impact has not been able to be quantified.

Inflation is included within the 2023-24 budget relating to a number of other items. Some of the more significant revenue budget increases are as follows:

| Budget | Inflationary Increase % |
|----------------------------------|-------------------------------|
| Electricity (above 2021-22 base) | 139.00 |
| External Audit Fee | 150.00 |
| Gas (above 2021-22 base) | 281.00 |
| Insurance | 16.00 |
| Vehicle Fuel | 24.00 |
| Water | 10.10 |

Significant inflationary increases are also being experienced in relation to capital contracts which will have an impact on the affordability of the capital programme.

f) **Pressures, Growth and Demographic Changes**

The following explains the sums requested relating to financial year 2023-24 unless stated otherwise:

Funding for adult social care has been assumed within the forecast to accommodate growth in the ageing adult population in Northumberland and address the disparity in wages between children’s and adult services team managers.

Two new children’s homes are being built in order to keep Northumberland children in the county which will in turn reduce the cost of out of county placements. The pressure spans two years of the

MTPF but there will be savings in the cost of out of county placements to offset these costs.

Investment in additional Occupational Therapy services delivered by Northumbria Healthcare NHS Foundation Trust to provide paediatric adaptation assessments for children and young people resident in Northumberland who require minor or major adaptations to their home.

A pressure has been identified for costs relating to court-ordered assessments and interpreting/translation fees. Most court-ordered costs are split between the parties, but the local authority is generally directed to pay one third of the associated costs. Demand is beyond the Council's control and is linked to the number of children and families in care proceedings. The interpreting costs and translation fees are incurred when working with non-English speaking service users and is limited to essential documents and meetings.

Additional funding is required for short break services for disabled children following a review that concluded that Northumberland's offer was inconsistent and limited and didn't provide enough variety of support for families.

Additional resources are needed for the Education Welfare Service so that the Council can fulfil new Department for Education requirements published in May 2022 regarding school attendance and the safeguarding of children not in school. One further requirement is to provide academies with a free service from September 2023, and not charge them through a Service Level Agreement (which is the current arrangement).

The removal of the School Improvement and Monitoring Grant from April 2023 will leave the School Improvement budget with a shortfall. Families and Children's Services Overview and Scrutiny Committee agreed on 26 May 2022 that "A recommendation be made to Cabinet for funding of the School Improvement Team to continue until the end of this Administration so that the team could continue to develop and offer support to schools both inside and outside of Northumberland."

Funding to create a dedicated resource for the Schools' Safeguarding Team which will enable the Northumberland Children's and Adults' Safeguarding Partnership and the local authority to provide the right level of support and training to maintain high safeguarding standards in education settings that meet local and statutory requirements.

The Council has also experienced an increase in the number of special education needs pupils who require home to school transport and a high number of contracts have been retendered increasing the cost significantly.

The Information Services team has experienced a significant decline in income following a number of schools no longer participating in their service level agreement; and in addition, it is anticipated that a pressure will occur in year 3 of the MTFP (2025-26) relating to the upgrade of Office 365.

The Archives Service has experienced a loss of income and requires a software licence for which there has been no budgetary provision previously.

There is pressure on the Coroner's budget in relation to both medical and body conveyancing fees and there is a shortfall in service level agreement income from schools in relation to the School Library Service, which need to be addressed.

Additional funding has been requested for home to school transport suppliers and supported bus services.

When the 2022-23 budget was set, inflation for pay increases was included at 2.25%. Pay negotiations for firefighters continue and the latest offer is 5.00%. The pay increase for staff on local government terms and conditions is now estimated to be between 10.50% for those on spinal column point 1 and 1.20% for those on spinal column point 75. The overall average increase based on this offer equates to 7.28% for the Council. All of the expected costs over and above 2.25% have been added as a recurrent pressure to the budget and MTFP.

Additional resources for the library service (for two years) including maintenance costs for the new mobile library units were included as a pressure in the 2022-23 MTFP.

Additional funding has been requested by the Fire & Rescue service to cover the Firelink grant which is going to reduce over the next three years and to cover the financial pressure being experienced in relation to data lines.

g) Non-recurrent Pressures

The following non-recurrent pressures were identified as pressures last year and remain in the assumptions, all of which are proposed to be funded from reserves:

- A fixed term contract for a Quality Improvement and Complaints Officer.
- The IT backup and recovery service.
- Increased costs for highways materials.
- The Strategic Transformation Programme – the Strategic Business case developed by the Council and its partners in recent months will be available in the near future (November 2022) and it is

envisaged that there will be significant savings deliverable over the term of the MTFP.

Further non-recurrent pressures which have been identified include:

- Resources for two years to enable the kerbside glass collection and recycling trial to continue
- Resources for 2023-24 to enable the kerbside food waste collection trial to continue.
- A further increase to both gas and electricity charges incurred by the Council to that originally expected. At this point in time it is envisaged that costs revert to “normal” in 2024-25. See paragraph 2.2 e) for further details.

- 2.3 It is important to note that at this stage it is assumed in the main that there is no net long term financial impact from Covid-19. The Council faced significant additional costs due to Covid-19, however, these costs have dissipated. In terms of income loss within service groupings it has been assumed that income levels were restored to pre Covid-19 levels by April 2022 or there are compensating reductions in expenditure to offset lost income.
- 2.4 The current cost of living crisis is having a significant impact on residents and businesses. To assist some of its most vulnerable residents the Cabinet has recently agreed (11 October 2022) to leave the council tax support scheme unchanged for 2023-24. Should members decide that further support is required this will add to the non-recurrent pressures in the budget.
- 2.5 All of these assumptions will be kept under review and the MTFP refined as necessary.

3. Savings

- 3.1 Executive Directors were asked to assess the deliverability of agreed savings for both the current year (2022-23) and 2023-24. The assessment was carried out using the following principles:
- a) Original permanent planned savings for 2022-23 will be achieved or an alternative must be delivered on an on-going basis in 2023-24.
 - b) Savings originally identified and verified as deliverable for 2023-24 will be achieved.
- 3.2 Work is ongoing to develop delivery plans for those savings that have not yet been realised, and Executive Directors have been asked to identify alternative proposals where necessary and possible. It is recognised that the delivery of savings in the current year has been extremely challenging.
- 3.3 In order to ensure delivery of a balanced budget for 2023-24, work has commenced on identification and development of savings proposals. The

recommended framework and MTFP principles surrounding the development of these plans is shown in paragraph 11.

- 3.4 The budget planning process is a continuing and iterative process, and further additional savings will be required over the life of the MTFP. Work is also progressing in relation to the revenue cost of the capital programme.
- 3.5 Work is ongoing to develop proposals for the savings required beyond 2023-24, and this will be supported by the Strategic Change Business Case which will be available in November 2022. However, it may be necessary for the Council to consider utilising some of its reserves non-recurrently to fund any gap.

4. Capital

- 4.1 Members are advised that in light of the financial difficulty the Council is facing and the rapid increase in interest rates that the capital programme is also being reviewed as the cost of borrowing is significantly higher than originally anticipated. When the 2022-23 budget was agreed the average rate for borrowing was 1.33% and at 24 October 2022 the average rate for borrowing using the same terms was 4.47%. There is still significant uncertainty surrounding interest rates. However, it is clear that there will be an impact on the affordability of the capital programme and some capital projects may need to be deferred or reduced in scope or value engineered in order to reduce costs. It may also be the case that there are some projects which are no longer affordable and will only be able to proceed if additional external funding can be secured. The revenue assumptions above do not include any changes to the revenue cost of capital from the assumptions made in the 2022-26 MTFP. This work will be done following the review of the Capital Programme. It is intended that a Capital Programme will be presented to Council in February 2023 which is affordable in the context of not only the capital budget but the revenue budget too.

5. Conclusion

- 5.1 The Section 151 Officer considers that there are too many unknowns to present a comprehensive budget package to Members for approval at the present time and work continues to formulate an affordable capital programme, identify savings proposals and refine costs and pressures to enable a balanced budget to be presented.

6. Budget Timetable

- 6.1 It is the intention to present the schedule of efficiency savings to Members for discussion in January 2023.
- 6.2 The budget will be presented to Members as follows:
 - 13 February 2023 Corporate Services and Economic Growth Overview & Scrutiny Committee (All Members will be invited)
 - 14 February 2023 Cabinet
 - 22 February 2023 Full Council

7. Budget Consultation Strategy

- 7.1 The Council recognises that consultation is an important part of planning and delivering services that meet people's needs. This is set out in the Corporate Plan:
 - a. *".. we know that we still face tough decisions that will not be universally popular. We will not take these lightly and pledge that we will pay attention and act on your concerns."*
- 7.2 The Council has a statutory duty to consult with businesses in Northumberland.
- 7.3 The purpose of the general budget consultation with residents and stakeholder groups is to communicate the budget challenge; ascertain an understanding of people's views on the way we plan to meet this challenge; and determine whether views differ for different groups. This will be used to help guide and inform the annual budget setting process. Where proposals will potentially have greater impact on the public or on groups protected by equality law, services will carry out their own consultation on the detailed proposals and work closely with our most vulnerable residents to help them understand what changes to services may mean for them.
- 7.4 The Council will undertake Budget consultation from December 2022 to January 2023 to allow for full discussion and debate at local area councils; parish and town councils; and, with staff and the unions.
- 7.5 There will also be an on-line question and answer session with the Leader of the Council, Glen Sanderson.
- 7.6 Service areas will consult on their budget proposals directly with individual services users, partners, and key stakeholders.
- 7.7 Feedback on budget consultation will be online.
- 7.8 Consultation will be promoted primarily through local and social media channels, linking through the Council's budget website.

Implications

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| Policy | This is the second year of this Administration's Medium-Term Financial Plan; and it fully supports the priorities outlined in the Corporate Plan 2021-24 - A Council that Works for Everyone. |
| Finance and value for money | The financial implications of the 2023-24 Budget and the Medium-Term Financial Plan are still being assessed but it is evident that the position will continue to be challenging. |
| Legal | <p>The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer. The Act also states that the Council has got to set its budget before 11 March in the financial year preceding the one in respect of which the budget is set.</p> <p>The terms of reference for Cabinet state that the Cabinet will take all necessary steps to prepare the authority's budget, and those plans and strategies which constitute the authority's policy framework as set out in Article 4 of this Constitution, prior to their final approval and adoption by the Council. It will undertake this work in accordance with the Budget and Policy Framework.</p> |
| Procurement | There are no specific Procurement implications within this report. |
| Human Resources | The size of the financial challenge will have an impact on staffing levels across the Council. The Council will continue to try and mitigate this impact by the management of vacancies and voluntary redundancy wherever possible. |
| Property | The individual proposals will carefully consider the impact with regard to property requirements. |
| Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/> | <p>All individual budget savings proposals for 2023-24 are being, or will be, screened for potential equality implications, and where potential equality impacts are identified, specific impact assessments are being, or will be, carried out unless the final decision on whether to proceed with the saving will be taken after the budget round. In those cases, impact assessments will be carried out by the relevant Executive Director before final decisions are taken and could potentially lead to decisions that some savings should not be made in their currently proposed form but should be achieved in other ways. An overall assessment of the equality impacts of the budget proposals is in preparation; this will be updated as work on the budget proceeds, including taking account of the outcome of consultations on elements of the savings proposals. A final version will be presented to the Council alongside the final budget proposals in February 2023.</p> <p>At this stage, the amounts indicated for financial years 2024-25, 2025-26 and 2026-27 are simply initial savings targets that are expected to be required, based on current information and assumptions. As proposals are developed to</p> |

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|-------------------------------|---|
| | achieve the overall savings for these years, they will be screened for potential equality considerations and, where potential impacts are identified, specific impact assessments will be carried out before final decisions are taken. |
| Risk Assessment | <p>The risks associated with the budget proposals will continue to be reviewed up to and including implementation of the detailed proposals.</p> <p>Any efficiency proposals that are considered to represent a risk will be subject to a separate comprehensive risk appraisal process. The risk appraisal process is the responsibility of the relevant Executive Director and will continue up to the County Council and beyond as individual budget reduction measures are implemented.</p> |
| Crime & Disorder | There are no specific Crime & Disorder implications within this report. |
| Customer Consideration | The individual proposals will carefully consider the impact upon both customers and residents of Northumberland. |
| Carbon reduction | The Council continues to develop proposals concerning the management of energy which are supported by the budget. |
| Health & Wellbeing | The Council's budget is founded on the principle of promoting inclusivity. |
| Wards | All wards. |

Background papers:

Cabinet report: 8 February 2022 and Council Report 23 February 2022: Budget 2022-23 and Medium-Term Financial Plan 2022-26

Report sign off

Authors must ensure that officers and members have agreed the content of the report:

| | Name |
|---|-------------------|
| Interim Monitoring Officer/Legal | Suki Binjal |
| Interim Executive Director of Finance & Section 151 Officer | Jan Willis |
| Relevant Service Director | Jan Willis |
| Interim Chief Executive | Rick O'Farrell |
| Portfolio Holder(s) | Richard Wearmouth |

Author and Contact Details

Alison Elsdon

Service Director: Finance

Telephone: 07796 652072

Alison.Elsdon@northumberland.gov.uk