



Northumberland County Council

Cabinet

Tuesday, 12 December 2023

Budget 2024-25 and Medium-Term Financial Plan 2024-2028

Report of Councillor: Richard Wearmouth, Deputy Leader and Cabinet Member for Corporate Resources

Responsible Officer: Jan Willis, Executive Director for Transformation & Resources (S151)

1. Link to Key Priorities of the Corporate Plan

The Council's budget and Medium-Term Financial Plan (MTFP) are aligned to the three priorities outlined in the Corporate Plan 2023-26: Achieving Value for Money; Tackling Inequalities and Driving Economic Growth.

2. Purpose of report

This report provides an update on the development of the 2024-25 Budget and the Medium-Term Financial Plan (MTFP) covering the period 2024 to 2028.

3. Recommendations

Members are requested to:

- 3.1 Review and note the revisions to the assumptions (and the risks) within the 2024-25 Budget and Medium-Term Financial Plan.
- 3.2 Note that further work is required to refine and finalise the Medium-Term Financial Plan.
- 3.3 Note that the revenue implications of the Capital Programme are still to be updated.
- 3.4 Note that there are still budget balancing measures required to be identified over the term of the Medium-Term Financial Plan and that it is intended that budget balancing measures for the two years 2024-25 and 2025-26 are agreed at the full Council meeting on 21 February 2024.

4. Forward plan date and reason for urgency if applicable

The report first appeared in the forward plan on 13 November 2023. The report is presented to inform and update Members of progress with the Budget 2024-25 and

MTFP 2024-2028. It has not been possible to provide this update earlier as there were too many unknowns. At this point in time no decision is required.

5. Background

- 5.1 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.
- 5.2 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.
- 5.3 On 19 December 2022 the Government announced a one-year settlement as part of its provisional Local Government Finance Settlement. The settlement did however provide some certainty around some of the funding streams for 2024-25 (up to the end of the Spending Review period).
- 5.4 The provisional Local Government Finance Settlement also confirmed that the outcome of the Fair Funding Review and review of the Business Rates Retention system would be postponed by at least a further two years; resulting in implementation in 2025-26 at the earliest. In practice, it is likely that decisions on both will be postponed until after the next General Election the timing of which remains uncertain.
- 5.5 This level of uncertainty has made financial planning extremely difficult and requires the Council to be flexible and adaptable as it considers setting the 2024-25 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.
- 5.6 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.
- 5.7 The current MTFP forecast, agreed by Council on 22 February 2023, covered the four-year period 2023-24 to 2026-27. It is recommended at this stage that the MTFP covers the four-year period 2024-25 to 2027-28 but with a focus on the detailed package of efficiencies for the next two years 2024-25 and 2025-26 in order that they can be progressed, and delivery of those efficiencies optimised. The budget and MTFP will be presented to full Council on 21 February 2024. 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.
- 5.8 Details of the local government financial settlement are expected to be announced by Government in late December 2023. It is once again 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 21 February 2024.
- 5.9 In line with previous practice the MTFP model has been reviewed and updated 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 and price inflation. The estimated savings requirement based on these assumptions will be as follows over the life of the MTFP:

2024-25	2025-26	2026-27	2027-28	Total
£m	£m	£m	£m	£m
10.859	18.543	19.908	14.920	64.230

5.10 The assumptions 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.

5.11 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.

5.12 **Medium-Term Financial Plan 2024-25 to 2027-28**

The Medium-Term Financial Plan was presented to Council on 22 February 2023 when the budget was set for 2023-24. The report set out a number of assumptions and identified a gap of £54.071 million from 2023-24 to 2026-27.

The MTFP is currently being updated to cover the period 2024-25 to 2027-28. At this point in time and using the mid-case scenario and the assumptions detailed below, savings of £10.859 million will be required to balance the budget for 2024-25 and a further savings requirement of £18.543 million for 2025-26 and £34.828 million covering the period 2026-27 to 2027-28 has also been identified.

The plan will continue to be updated to reflect changing circumstances and a revised MTFP will be presented to the Cabinet for approval as the budget process develops.

5.13 **Review of the Medium-Term Financial Plan**

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 wars in Ukraine and Gaza and the resulting spike in energy prices, significant inflation, higher interest rates, volatile financial markets and the cost-of-living crisis. Although the latest headline rate of inflation has come down to 4.6%, the significant increases seen in recent years

are now to a large extent baked in, and inflationary pressures are expected to add around £40 million to the Council's cost base over the next 2 years.

The draft MTFP can currently be summarised as follows:

	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
FUNDING:				
Government Grants	(169.496)	(163.428)	(164.866)	(167.297)
Council Tax	(242.824)	(257.680)	(263.673)	(269.627)
Collection Fund Surplus	(7.271)	-	-	-
Use of Reserves	(19.448)	(11.638)	(0.100)	1.025
TOTAL FUNDING	(439.039)	(432.746)	(428.639)	(435.899)
EXPENDITURE:				
Baseline Budget	385.576	417.431	423.971	428.760
Inflation	21.862	19.283	15.570	15.390
Proposed Growth & Pressures	26.993	4.414	3.006	0.669
Revenue Cost of Capital	15.467	10.161	6.000	6.000
Budget Gap	(10.859)	(18.543)	(19.908)	(14.920)
TOTAL EXPENDITURE	(439.039)	(432.746)	(428.639)	(435.899)

The assumptions for the 2024-25 and 2025-26 Budgets and MTFP are currently as follows:

- a) Revenue Support Grant (RSG) - 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 6.70% and this is the increase that has been assumed for 2024-25). An inflationary increase of 2.00% has been assumed for the remaining three years of the MTFP.
- b) Rural Services Delivery Grant – a cash flat allocation of £2.456 million has been assumed for each year of the MTFP.
- c) New Homes Bonus (NHB) – The provisional Local Government Finance Settlement in December 2022 announced that there would be a new allocation for 2023-24 only and that the future of the NHB scheme would be announced in time for the 2024-25 provisional Local Government Finance Settlement. It is forecast that £0.961 million will be received in both 2024-25 and 2025-26.
- d) Improved Better Care Funding – it has been assumed that there will be no increase or decrease in the Better Care Fund.
- e) Adult Social Care Grants - that additional funding (Social Care Grant) received for Adults and Children's Social Care in 2023-24 will become recurrent but there will be no increase, and, that the cost of adult social care reforms (Fair Cost of Care and charging reform) will be fully funded by the Government.
- f) Services Grant – a cash flat allocation of £2.787 million has been assumed for each year of the MTFP.

- g) Council Tax - the Government confirmed that the council tax referendum limit would be 3.00% for 2024-25 in the Local Government Finance Settlement. 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%. for 2025-26. Therefore, a council tax increase of 2.99% has been assumed for 2024-25 and 2025-26 and it is assumed that the council tax referendum limit will revert to 2.00% from 2026-27 and the council tax increase has been assumed as 1.99% for the remaining two years of the MTFP.

The Council Tax Policy will be updated so that the council tax premium for empty homes commences after 1 year rather than 2 years.

The figures also assume that the legislation regarding 2nd homes premium is passed and is implemented with effect from 1 April 2025.

- h) Adult Social Care Precept - that an increase to the Adult Social Care Precept of 2.00% will be applicable for 2024-25 only.

- i) 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 support 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 2024-25 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 continue to be 1.00%.

- j) 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 across the MTFP. The final determination of these pay inflation factors will impact on the MTFP assumptions.

When the 2023-24 budget was set, inflation for all pay increases was included at 4.00%.

Pay negotiations for firefighters has concluded for years 2022-23 and 2023-24 and the increases were 7.00 and 5.00% respectively.

The agreed pay increase for staff on local government terms and conditions is now estimated to be between 9.50% for those on spinal column point (SCP) 1 and 3.88% for those on SCP 43 (and above) in the current financial year (2023-24) which equates to the employer's current offer of £1,925 for each grade (plus employer's oncosts). All staff on SCPs above SCP 43 will not receive the flat rate increase of £1,925 but will instead receive an increase equating to 3.88% of their basic salary. The overall average increase based on this offer equates to 5.26% for the Council.

All of the costs (actual and estimated) over and above 4.00% have been added as a recurrent pressure to the 2023-24 budget and MTFP.

- k) Non-Pay Inflation - Whilst they may have abated recently, 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.

Inflation is included within the 2024-25 budget relating to a number of other items. Some of the more significant revenue budget increases are as follows:

Budget	Inflationary Increase
	%
Electricity (above 2023-24 base)	48.00
External Audit Fee	6.70
Gas (above 2023-24 base)	98.00
Insurance	11.00

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

Inflationary increases have also been applied to some income budgets. A full list of all fees and charges will be included in the full budget report in February 2024.

- I) Recurrent Pressures – recurrent pressures have been identified across the MTFP and can be categorised as follows:

	2024-25	2025-26	2026-27	2027-28
	£m	£m	£m	£m
Budget realignment	0.195	0.031	0.001	0.001
Children's Services pressures	3.419	0.415	-	-
Corporate pressures	0.527	-	-	-
Digital contracts	0.282	0.382	-	-
Fire & Rescue Service – overtime pressure	0.400	-	-	-
Home to School Transport (Not SEND)	0.400	-	-	-
Legislative Changes	0.676	0.202	0.389	-
Loss of grant/income pressures	0.759	0.030	0.030	0.030
Other	0.031	-	-	-
Pay inflation over and above the budgeted amount	3.209	-	-	-
Total Recurrent Pressures	9.898	1.060	0.420	0.031

The Children's Services figures relate to:

- i) the new children's homes that are being built/acquired 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 MTFP but there will be savings in the cost of out of county placements to offset these costs.
- ii) additional funding 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.
- iii) the increased pressure resulting from a mandatory inflationary increase of 12.50% introduced by the Department for Education for foster care and special guardianship allowances. The Council had anticipated an increase of 5.00%.
- iv) an increase needed to the provision of overnight respite care. The service has been operating at a reduced capacity since the pandemic.
- v) a significant increase in funding is required for external residential placements as the needs of the children are complex and the placements costly. There is a shortage of supply and demand is high for placements.

The Corporate pressures figures relate to budget alignment required for bank charges, external audit fees and the apprenticeship levy as well as the cost of benefits which are not funded.

- m) Growth including demographic growth for adult social care and the increase in pupil numbers for the home to school transport service (SEND) has been included in the MTFP.
- n) Non-recurrent Pressures – a number of non-recurrent pressures have been identified (some were identified in the previous year) and it is proposed that they are all funded from reserves or grant.
- o) Efficiencies – there are sufficient efficiencies identified to enable the budget for 2024-25 to be balanced but there is still a shortfall for 2025-26 and as mentioned previously it is the intention to request that efficiencies for the next two years are approved by Council in February.

Executive Directors were asked to assess the deliverability of agreed savings for both the current year (2023-24) and the two financial years 2024-25 and 2025-26. The assessment was carried out using the following principles:

- i) Original permanent planned savings for 2023-24 will be achieved or an alternative must be delivered in-year and on an on-going basis in 2024-25.
- ii) Savings originally identified and verified as deliverable for 2024-25 will be achieved.

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.

In order to ensure delivery of a balanced budget for 2024-25 and 2025-26, 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 5.11.

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.

To date efficiencies have been identified as follows:

	2024-25	2025-26	2026-27	2027-28	Total
	£m	£m	£m	£m	£m
BEST savings	3.631	7.584	4.905	0.640	16.760
Contract savings	0.465	0.305	-	-	0.770
Efficiency	1.331	0.417	0.250	0.050	2.048
Income generation	0.517	0.762	0.172	-	1.451
Manage demand	3.606	5.410	-	-	9.016
Management of vacancies	0.176	-	-	-	0.176
Service review	0.156	-	-	-	0.156
Use of grant	0.977	0.472	-	-	1.449
Total Efficiencies	10.859	14.950	5.327	0.690	31.826
Savings Gap	10.859	18.543	19.908	14.920	64.230
Balance to identify	-	3.593	14.581	14.230	32.404

The Executive Directors continue to work on the balance and identify proposals which will ensure that a balanced set of proposals will be presented to Cabinet in February 2024 covering the two years 2024-25 and 2025-26.

There are a number of factors which will influence the position:

- i) The reprofiling of the capital programme which will impact on both the capital and revenue position.
- ii) The provisional Local Government Finance Settlement which is due to be received in December 2023.
- iii) The outcome of the leisure provider procurement exercise.
- iv) Grant notifications from the Government.
- v) Confirmation that the legislation has been passed in relation to an increase in planning fees.

5.14 Capital

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 2023-24 budget was agreed the average rate assumed for borrowing was 4.58% and at 14 November 2023 the average rate for borrowing using the same terms was 5.57%. For every £1.000 million that the Council borrows the impact on the revenue budget is approximately £0.088 million if the borrowing is over 20 to 30 years. 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 2023-27 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 2024 which is affordable in the context of not only the capital budget but the revenue budget too.

- 5.15 At this stage any of the assumptions made could be subject to change as a result of the Comprehensive Spending Review, and the publication of the provisional Local Government Finance Settlement, which is expected towards the end of December 2023.
- 5.16 The Section 151 Officer considers that there are too many unknowns to present a comprehensive and detailed 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.
- 5.17 It is the intention to present the schedule of efficiency savings to Members for discussion in 2024.
- 5.18 It is proposed currently that the budget will be presented to Members as follows:

27 November 2023	Corporate Services and Economic Growth Overview & Scrutiny Committee
12 December 2023	Cabinet
29 January 2024	Corporate Services and Economic Growth Overview & Scrutiny Committee (All Members will be invited)
13 February 2024	Cabinet
21 February 2024	Full Council

5.19 **Budget Consultation**

The Council recognises that consultation is an important part of planning and delivering services that meet people's needs.

The Council has a statutory duty to consult with businesses in Northumberland.

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.

The Council will undertake Budget consultation from December 2023 to January 2024 to allow for full discussion and debate with all political groups and their Leaders, local area councils; parish and town councils; and, with staff and the unions.

There will also be an on-line question and answer session with the Leader of the Council, Glen Sanderson.

Service areas will consult on their budget proposals directly with individual services users, partners, and key stakeholders.

Feedback on budget consultation will be online.

Consultation will be promoted primarily through local and social media channels, linking through the Council's budget website.

6. Options open to the Council and reasons for the recommendations

- 6.1 This report provides an update for Members and outlines the assumptions included in the draft budget to date. The detail of the budget has yet to be finalised and there is further work to be concluded in relation to the Council's Capital Programme.
- 6.2 Notwithstanding that the Government will announce the Local Government Finance Settlement at the end of December 2023 which may result in the need to revisit the figures currently included in the budget.
- 6.3 The report is therefore for Member's information and to note.

7. Implications

Policy	This is the third year of this Administration's Medium-Term Financial Plan; and it fully supports the priorities outlined in the Corporate Plan 2023-26.
Finance and value for money	The financial implications of the 2024-25 and 2025-26 Budgets and the Medium-Term Financial Plan are still being assessed. The Section 151 Officer is confident that the budget will achieve balance, but it is evident that the position will continue to be challenging.
Legal	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. The responsibilities of Cabinet, as set out in the Constitution, include taking all necessary steps to prepare the authority's budget, and those plans and strategies which constitute the authority's policy framework. It will undertake this work in accordance with the Budget and Policy Framework Procedure Rules.
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.
The Equalities Act: is a full impact assessment required and attached?	<p>No - not required at this point in time.</p> <p>All individual budget savings proposals for 2024-25 and 2025-26 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 2024.</p> <p>At this stage, the amounts indicated for financial years 2026-27 and 2027-28 are simply initial savings targets that are expected to be required, based on current information and assumptions. As proposals are developed to 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.</p>

Risk assessment	<p>The risks associated with the budget proposals will continue to be reviewed by the Executive Directors 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 and disorder	There are no specific Crime & Disorder implications within this report.
Customer considerations	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. Executive Directors will advise members of the carbon reduction implications in relation to their own areas of the budget and their budget proposals.
Health and wellbeing	The Council's budget is founded on the principle of promoting inclusivity.
Wards	All wards.

8. Background papers

Not applicable.

9. Links to other key reports already published

[Budget 2023-24 and Medium-Term Financial Plan 2023-27 - County Council 22 February 2023](#)

10. Author and Contact Details

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