



# Northumberland

## County Council

### COUNTY COUNCIL

21 FEBRUARY 2024

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### Budget 2024-25 – Report under Section 25 of the Local Government Act 2003

Report of: Jan Willis, Executive Director of Transformation and Resources (Section 151 Officer)

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#### Purpose of Report

1. To provide Council Members with information on the robustness of the estimates and the adequacy of reserves in the Cabinet's budget proposals for 2024-25. Provision of this information is a legal requirement and ensures that all Members have regard to the professional authoritative advice provided by the Council's Chief Financial Officer when final budget decisions are made at this meeting.

#### Recommendation

2. That Members have regard to this report and the opinions contained and set out in the report when considering and approving the Budget and the level of Council Tax for 2024-25.

#### Background

3. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and to appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements.
4. Local authorities decide every year how much they are going to raise from council tax. Decisions are based on a budget that sets out the estimates of what the Council plans to spend on each of its services in the forthcoming year in order to deliver the strategic objectives set out in the Council's Corporate Plan.
5. The decision on the level of the council tax is taken before the financial year begins and it cannot be changed during the year, so allowance for risks and uncertainties that might increase service expenditure above that planned, must be made by:
  - a. making prudent allowance in the estimates for each of the services and

- b. ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient or unexpected events occur that were not anticipated when the budget was compiled.
- 6. Section 25 of the Local Government Act (LGA) 2003 requires that when a local authority is considering its Budget and setting its Council Tax for the forthcoming financial year, its Chief Financial Officer must report to Full Council on:
  - a. the robustness of the estimates made for the purposes of the Council Tax requirement calculations and
  - b. the adequacy of the proposed financial reserves allowed for in the budget proposals.
- 7. Section 25 of the LGA 2003 also requires members to have regard to this report in making their decisions in relation to the Budget and the setting of Council Tax for 2024-25.

### **Members Awareness and Training in relation to the Budget Setting Process**

- 8. Two policy conferences relating specifically to the Budget have taken place during the year which provided a training opportunity for all Members and where Members were:
  - a. made aware of the budget process for the 2024-25 General Fund and Housing Revenue Account Budgets,
  - b. advised and reminded of their responsibilities as Members with regard to the budget setting process,
  - c. advised and reminded of the roles and responsibilities of the Council's Officers with regard to the budget setting process,
  - d. provided with budget training,
  - e. advised of the financial challenges facing the Council,
  - f. advised of the Budget consultation process,
  - g. advised of the underlying assumptions and estimated level of efficiencies required for the 2024-25 Budget and Medium-Term Financial Plan 2024-2028 (at the time of the conferences) as well as the progress made in identifying efficiencies to balance the Budget, and
  - h. provided with the opportunity to ask questions in relation to the budget setting process.

### **Robustness of Estimates**

- 9. Service groupings have been building detailed budgets throughout the budget setting process. This includes identification of unavoidable service pressures (recurrent and non-recurrent) and inflationary and demographic changes that need to be reflected in the base budget next year. Reports have been presented to Cabinet and Corporate Services Overview and Scrutiny Committee

throughout the year as part of the budget planning process (and the current year's financial monitoring process).

10. The 2024-25 budget proposals are based on extensive analysis and assurances from Executive Directors and their Service Management Teams plus their finance support staff. Cabinet Members have worked closely with their Executive Directors throughout the process.
11. Overview and Scrutiny Members were able to challenge and question the Cabinet Members and Executive Management Team on budgets, performance and proposals at an all-Member Corporate Services and Economic Growth Overview and Scrutiny Committee on 29 January 2024.
12. Local area committee members, the Trade Unions, Business Ratepayers and their representatives have also had the opportunity to be consulted on the proposals. The feedback from these consultations, alongside the outcomes from the consultation undertaken with the wider public via an online survey that was made available on the Council's website, is included in the Budget report.
13. The Council has faced significant financial challenges because of high inflation levels during 2023-24. This has impacted on the price of goods and services purchased. Alongside this the 2023-24 pay award averaged 5.26% compared to the allowance of 4.00% which was included in the base budget. These significant budget pressures in 2023-24 have all been included in the latest monitoring report which will be provided to Cabinet on 12 March 2023. The quarter 3 forecast includes fortuitous income by way of business rates from the allocation of the surplus from the Government's levy account and is currently showing a projected underspend of £0.078 million.
14. The significant inflationary and demand led pressures, particularly in the Children's Social Care and home to school transport budgets, have resulted in total additional recurrent base budget pressures of £14.823 million being included in the 2024-25 budget build process. As part of the Local Government Finance Settlement, Government has overall provided £8.881 million of additional grant funding next year for Adult and Children's social care pressures.
15. The final Local Government Finance Settlement included additional Social Care Grant funding of £3.169 million (included in £8.881 million) when compared to the provisional Settlement. Appendix A to the Update to the Budget 2024-25 and Medium-Term Financial Plan 2024-2028 report demonstrates how this grant overall will be utilised to fund both Adult and Children's social care costs. However, it has recently been advised that the additional Social Care Grant is also intended to be used to fund the additional costs incurred by local authorities for home to school transport. The financial pressures in the 2024-25 budget for home to school transport are estimated to be £2.964 million.
16. In addition to the significant demand-led recurrent pressures mentioned above, the Council is also experiencing significant non-recurrent pressures which are funded from the Strategic Management Reserve. Careful consideration needs

to be given to those non-recurrent pressures which over time could become recurrent, for example, various local services pilot schemes. This could present a risk for both the revenue and the capital budgets and requires careful management and planning.

17. Government has provided the same council tax raising powers to local government as it did for the 2023-24 budget and expects local authorities to take up these tax raising powers (general council tax and adult social care precept) to help meet the inflationary and other pressures the sector is facing.
18. The base council tax referendum limit has been set at 2.99% and an additional 2.00% adult social care precept can be utilised in 2024-25. In total therefore the Council can increase council tax in 2024-25 by 4.99% without triggering the requirement to hold a local referendum.
19. With a 4.99% council tax increase (4.59% overall), having taken into account tax base growth and £10.834 million of budget savings, the Council will still be required to utilise £16.504 million of the Strategic Management Reserve in order to balance the 2024-25 budget. The reserve will only be used to fund non-recurrent items of expenditure. Other earmarked reserves totalling £5.154 million will also be utilised in 2024-25. Utilising earmarked reserves to balance budgets at this level is not a sustainable budget strategy in the medium to longer term.
20. Every 1.00% increase in the council tax increase generates approximately £1.930 million of additional resources. Therefore, the additional 2.99% council tax increase generates additional income of £5.771 million for the Council which is needed during this period of significant base budget pressures. A failure to increase the council tax in line with the proposals set out in the budget report would either require services to identify more efficiencies or increase the requirement to use the Strategic Management Reserve. Given the cumulative impact on the council tax base it would also make the task of balancing the budget in future years even more difficult, resulting in the need for additional efficiencies and potentially cuts to Council services.
21. The following table highlights the council tax collection rates, and the Council's share of the surplus or deficit council tax collected for the last three years (plus year to date):

	<b>Collection Rate (current)</b>	<b>Collection Fund Surplus / (Deficit)</b>
	<b>%</b>	<b>£ million</b>
2020-21	97.02	(1.489)
2021-22	97.41	2.882
2022-23	97.26	1.406
2023-24 (to 31.12.23)	81.45	4.149

22. Council tax staff continue to collect outstanding council tax for prior years so the collection rates shown will increase over time. For 2018-19 the collection rate currently stands at 99.56% and for 2019-20 it is 99.31%.
23. During the development of the 2024-25 Budget extensive work has also been carried out to produce an indicative Medium Term Financial Plan (MTFP). A range of broad assumptions have been utilised and robustly challenged as part of the MTFP process.
24. The most significant areas of risk contained in the Budget 2024-25 and MTFP are as follows:
  - a. Council tax income from the Adult Social Care Precept. The MTFP assumes that as part of the 2025-26 local government settlement, local authorities will be able to increase the ASCP by 2.00% in 2025-26, but this will not be confirmed until December 2024. This equates to £4.975 million per annum for the Council (including the increase in Tax Base for 2025-26 shown in the MTFP).
  - b. Inflation, particularly pay inflation. For every 1.00% increase in pay inflation an additional £1.790 million will be required.
  - c. Interest rates. For every 1.00% change in the interest rate assumptions used, there would be a net change of £1.170 million.
25. The assumptions contained in the 2024-25 Budget and MTFP 2024-25 to 2027-28 have over a number of months been robustly challenged. This includes comparisons with other authorities, both in the north east and nationally. Of particular concern is the significant uncertainty beyond 2024-25, with more difficult financial settlements widely expected from 2025-26 onwards when the Chancellor of the Exchequer will face some very tough choices over taxation levels and public expenditure restraint given the level of borrowing nationally at this time. If public spending reductions are implemented from 2025-26 and local government remains unprotected from these then the forecasts included in the MTFP will need to be revised.
26. A table showing the assumptions in the budget and the potential risks and the financial impact of those risks is shown at Appendix 1.
27. For 2024-25 efficiencies of £10.834 million have been identified and are being proposed in order to balance the budget (and for 2025-26 £14.939 million). Executive Directors will continue to review and assess the risks of the proposed efficiencies up to and including implementation of the proposals. Any efficiency proposal considered to represent a risk should be taken through the Council's risk appraisal process by the relevant Executive Director.
28. Executive Directors are confident at this point in time that the proposals they have identified are deliverable. If circumstances change and Executive Directors identify that a proposed and agreed efficiency is no longer deliverable, or has unacceptable equality impacts that cannot be mitigated, they will be

required to identify alternative and compensating measures which they will agree with their relevant Cabinet Member. Any such occurrences will be reported in the quarterly financial monitoring report to Cabinet so that all Members are aware.

29. Further work is needed for years 2026-27 to 2027-28 to identify additional efficiencies, with a forecast efficiency requirement of £30.158 million across that period, but in my professional view the Council has taken all reasonable and practical steps to identify and make provision for the County Council's commitments in 2024-25 in order to achieve a balanced budget next year and that the use of £16.504 million of the Strategic Management Reserve to balance the budget is justified.
30. Whilst Executive Directors have all provided assurance that the savings identified in their area can be delivered, it is possible that plans may change. If they do, and Executive Directors cannot deliver the saving in the way in which it was originally envisaged then the Executive Director will either propose a new plan or deliver a non-recurrent saving in year until a recurrent saving can be identified and achieved. Members will be advised of progress in relation to savings in the quarterly financial monitoring reports to Cabinet.
31. With regard to the BEST savings identified in the Schedule of Efficiencies, work is underway with the Council's delivery partner validating those savings and the timing of the delivery of those savings. Members will be advised of progress in the quarterly financial monitoring reports to Cabinet and in regular BEST updates.
32. Work will commence immediately and in earnest to develop strategies to tackle the efficiency requirement for financial years 2026-27 and 2027-28 to ensure there is no long-term reliance on the use of reserves to balance the budget. Detailed delivery plans will be required from Services to demonstrate that any efficiencies proposed can be delivered.
33. The Budget report recommends that those efficiencies identified for both 2024-25 and 2025-26 are agreed. It would be sensible to commence implementation and delivery of all identified efficiencies and drive out the efficiencies early to minimise the risk of non-deliverability in future years.
34. Whilst it is anticipated at this point in time that all of the efficiencies identified in the Budget report are deliverable, it is sometimes the case that the planned efficiency is either not deliverable within the required timescale or is not achievable at all. In these instances, the relevant Executive Director and/or the Executive Management team will work together to identify compensating savings (which may be non-recurrent), to fill the gap.
35. Members will also note that a significant proportion of the efficiencies are attributable to the BEST initiative, particularly in 2025-26. A considerable amount of work is underway with the Council's delivery partner, Deloitte, to verify that those efficiencies are deliverable within the required timescale and

detailed business cases will be developed in the coming months to provide that assurance.

36. The ambitious Capital Programme also presents a potential financial risk to the Council. The Council has seen the cost of supplies, materials, wages and contractors soar in the last few years and it is often difficult to accurately predict what the final cost of a major capital project will be. The Capital Programme presented in the Budget report shows the best available estimates at this point in time. If tender costs received are higher than those estimated, then Members will be advised via the report from the Capital Strategy Group. Members should also be aware that if the costs are significantly different to those shown in the Capital Programme that it may be necessary to place some of the capital schemes on hold or reprofile them into future years. The plan going forward is to present a 10-year capital programme which will allow to Council to adopt a longer planning horizon for capital investment decisions.
37. The Council has seen the cost of borrowing increase significantly in the last few years. The Corporate Finance Team works closely with the Council's Treasury Management Advisors to borrow and invest funds at the optimum time. They not only take out new loans to fund the overall Capital Programme, they also replace loans which are expiring. The strategy over the last few years has been to use "internal borrowing" as interest rates for external borrowing have been high, but this will prove to be more difficult in the future as the Council consumes its reserves. The impact of a 1.00% change in interest rates in the new borrowing requirement for 2024-25 is an additional cost of £1.168 million.

### **Adequacy of Reserves**

38. The Chartered Institute of Public Finance and Accountancy's (CIPFA) Local Authority Accounting Panel (LAAP) has a guidance note on Local Authority Reserves and Balances (LAAP Bulletin 77) to assist local authorities in this process. This guidance is not statutory, but compliance is recommended in CIPFA's Statement on the Role of the Finance Director in Local Government. It is best practice to follow this guidance.
39. The guidance however states that no case has yet been made to set a statutory minimum level of reserves, either as an absolute amount or a percentage of the Council's budget. Each local authority should take advice from its Chief Financial Officer and base its judgement on local circumstances.
40. Reserves are held for the following main purposes, some of which may overlap:
  - a. as a working balance and to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
  - b. as a contingency and to provide resilience to cushion the impact of unexpected events or emergencies – this also forms part of general reserves;

- c. as a means of building up funds known as 'earmarked reserves' and creating capacity to meet known or predicted funding requirements.
41. The CIPFA Guidance highlights a range of factors in addition to cash flow requirements that councils should consider including:
  - a. the treatment of inflation;
  - b. the treatment of demand led pressures;
  - c. efficiency savings;
  - d. partnerships;
  - e. the general financial climate, including the impact on investment income.
42. The guidance also refers to reserves being deployed to fund recurring expenditure and indicates that this is not a long-term or sustainable option.
43. The Accounting Code of Practice requires unapplied grants or partnership funds to be carried over at the year-end in an earmarked reserve. This can often skew the level of balances held from year to year, particularly where funding for the upcoming years commitments is paid early.
44. The Council continues to face significant uncertainty in relation to the future levels of Government funding – in fact, it is difficult to recall a period in recent times when there is so much uncertainty in relation to local government funding especially in relation to how funding will be distributed.
45. The outcome of the Fair Funding Review will not be known until at least 2025-26 and the outcome from that will dictate how funding will be allocated to individual local authorities. At this stage there remains a significant risk that the outcome of the review may not be favourable to Northumberland and a risk that the review is deferred further or may not even happen at all. The budget proposals include a number of prudent assumptions that are described in detail in the main budget report.
46. The Council is also continuing to face significant ongoing budget pressures. There are significant and continuing pressures in social care services (Adults and Children) and home to school transport. In addition, the current high levels of inflation, the large increase in the National Minimum Wage and the requirement to carry out a Fair Cost of Care process for adult care all continue to place significant pressures upon the budget. Whilst the MTFP modelling includes estimates of future cost pressures for these areas, Council needs to be aware that further sustained pressures in these areas remain a significant risk.
47. There continue to be risks associated with the ongoing review of Business Rates and the requirements of the Local Council Tax Reduction Scheme, where the cost-of-living crisis may mean that more residents are eligible for the reduction and the money set aside is insufficient. Council is recommended to agree the Hardship Scheme proposed for 2024-25 for those residents who are benefit claimants. This will be funded from the residual money available in the Council



Tax Hardship and Discount Scheme Fund Reserve which was established for 2023-24 but has not all been utilised. This Reserve will be exhausted in 2024-25 and residents will feel the impact more in 2025-26 if the cost-of-living crisis has not eased which will put more pressure on the Local Council Tax Reduction Scheme.

48. There are two reserves in Appendix 3 of the Budget report where the forecast balance shown is a deficit in future years and they therefore present a budgetary risk:

a. Balances held by Schools Reserve

There are currently 18 schools in deficit with deficits ranging from £0.005 million to £1.128 million. The school with the largest deficit currently is in the process of academisation. On this occasion the Council is required to fund the deficit, and this has been included in the Budget as a non-recurrent pressure to be funded from the Strategic Management Reserve. The figures in the schedule show the worst-case scenario and anticipate that 55 schools will be in deficit by 31 March 2027 with deficits ranging from £0.004 million to £2.064 million. The Corporate Finance Team in conjunction with the Director of Education, SEND and Skills are working with those schools that are either in deficit or forecasting deficit budgets and developing plans to reduce or eliminate the deficit.

Schools are experiencing inflationary pressures in the same way that the Council is and are dealing with pay awards that are not fully funded by the Dedicated Schools Grant (DSG) which they receive.

b. Dedicated Schools Grant Reserve

The DSG is divided into four notional blocks:

- Schools Block
- Central School Services Block
- High Needs Block; and
- Early Years Block

Virement between the four notional blocks of up to 0.50% is possible. Schools Forum have approved the full 0.50% transfer from the schools' block to the high needs block for 2024-25 which is an additional £1.125 million to support budget pressures for children with additional needs.

However, even after this injection of funds from the schools' block there is significant pressure on the High Needs Block which is the main reason why a DSG deficit is predicted by 31 March 2025. A root and branch review of the DSG high needs block and how it is utilised is ongoing in order to bring this reserve back into balance. It is possible that this may result in additional pressures which will need to be funded by the Council.

Members of Schools Forum are actively engaged in the work to manage the demands and expectations of the DSG.

Members should also note that this issue is not unique to Northumberland. This is a national issue, and the Government has introduced a statutory override which allows councils to keep ballooning deficits on spending for children with special educational needs and disabilities off their balance sheets for the financial years 2023-24 to 2025-26.

In June 2022, the Government launched the £85.000 million Delivering Better Value in SEND programme, which involves specialist advisors probing the data of 55 councils to try and cut their DSG deficits.

The professional accounting body the Chartered Institute of Public Finance and Accountancy (CIPFA) is a partner in the programme providing project management, change management and financial modelling capacity.

The programme is running alongside the Department for Education's 'safety valve' support scheme that offers bailouts for the councils with the largest SEND spending deficits, in return for them implementing stringent reforms.

Approximately 40 councils are expected to receive safety valve funding, meaning that the two programmes together will include about two thirds of councils with responsibility for SEND.

Northumberland is not involved in the Programme or the safety-valve support scheme due to the High Needs fund being managed well. The Department for Education is utilising the methods employed by the team in Northumberland across other local authorities with DSG deficits.

49. The Schedule of Reserves contained within Appendix 3 demonstrates that the financial standing of the Council is sustainable and therefore the Council can at this point in time withstand a significant revenue shock.
50. The level of reserves over the last 5 years plus the estimated balance at the end of the current financial year is shown at Appendix 2.
51. With these risks in mind, it is recommended that the County Council:
  - a. adopts the policy for reserves included in the main budget report;
  - b. sets aside sufficient sums in earmarked reserves as it considers prudent;
  - c. aims to maintain General Reserves in the medium term of between 5% and 7.5% of the Gross Budget Requirement which in cash terms is between £46.421 million and £69.631 million. Whilst the level of general reserves at 31 March 2024 is expected to exceed £69.631 million the planned use of the Strategic Management Reserve should bring the general reserve total within the 5.00% to 7.50% range.

52. Earmarked reserves have been established to provide resources for specific purposes. Of these reserves, the use of schools' balances is outside of the control of the Council.
53. The recommended budget for 2024-25 requires the utilisation of £16.504 million of the Strategic Management Reserve in order to balance the budget.

### **Opinion**

54. In my professional view, if the Council was to accept:
  - a. the Cabinet's recommended Council Tax increase of a 2.99% base Council Tax increase and
  - b. a 2.00% increase for the Adult Social Care Precept and
  - c. funding for unavoidable service pressures and investments and
  - d. proposals for efficiencies and
  - e. proposals for capital investmentthen the level of risks identified during the budget process, alongside the authority's financial management arrangements and the review of reserves, suggests that the level of reserves is adequate.

### **Conclusions**

55. In forming my opinion on the budget proposals put forward by Cabinet I have carefully considered the financial management arrangements and control frameworks that are in place, the underlying budget assumptions, the adequacy of the service planning process, the financial risks facing the Council and the adequacy of the Councils' reserves.
56. Members are advised to have regard to this statement when approving the budget and the level of Council Tax for 2024-25.

## IMPLICATIONS ARISING OUT OF THE REPORT

**Policy:** The report supports the three priorities outlined in the Corporate Plan 2023-26: Achieving Value for Money; Tackling Inequalities and Driving Economic Growth.

**Finance and value for money:** The financial implications of the 2024-25 Budget and MTFP 2024-28 are detailed within the main budget report. The Section 151 Officer is confident that the budget is balanced and that all risks have been identified.

**Legal:** Section 25 of the Local Government Act 2003 requires that when a local authority is considering its budget and setting its council tax for the forthcoming financial year, its Chief Financial Officer must report to Full Council on:

- a. the robustness of the estimates made for the purposes of the council tax requirement calculations;
- b. the adequacy of the proposed financial reserves allowed for in the budget proposals.

This report fulfils the Section 151 Officer's obligations.

Section 25 of the LGA 2003 requires members to have regard to this report in making their decisions in relation to the budget and the setting of the council tax for 2024-25.

**Human Resources:** There are no human resources implications within this report.

**Property:** There are no property implications within this report.

**Equalities:** Not applicable.

(Impact Assessment attached)

Yes  No  N/A

**Risk Assessment:** The risks are contained within this report and the Budget 2024-25 and Medium-Term Financial Plan 2024-28 report.

**Carbon Reduction:** There are no carbon reduction implications within this report.

**Crime & Disorder:** There are no crime and disorder implications within this report.

**Customer Considerations:** There are no customer consideration implications within this report.

**Health & Wellbeing** There are no health and wellbeing implications within this report.

**Wards:** All wards.

<b>Date</b>	<b>Report to</b>	<b>Report</b>
17 January 2024	Full Council	Approval of the Council Tax Support Scheme for 2024-25
12 December 2023	Cabinet	Setting of the Council Tax Base 2024-25
21 February 2024	Full Council	Budget 2024-25 and Medium-Term Financial Plan 2024-2028
21 February 2024	Full Council	Update to the Budget 2024-25 and Medium-Term Financial Plan 2024-2028